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**REVIEW OF THE ADMINISTRATION'S FEDERAL  
CROP INSURANCE REFORM PROPOSAL**

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Y 4. AG 8/1:103-60/PT. 1

Review of the Administration's Fede...

## HEARINGS

BEFORE THE

SUBCOMMITTEE ON ENVIRONMENT, CREDIT,  
AND RURAL DEVELOPMENT

OF THE

COMMITTEE ON AGRICULTURE  
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

MARCH 25, 1994

APRIL 5, 1994, LUVERNE, MN

APRIL 21, 1994

**Serial No. 103-60**

**PART 1**

DEC 13 1994



Printed for the use of the Committee on Agriculture

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# REVIEW OF THE ADMINISTRATION'S FEDERAL CROP INSURANCE REFORM PROPOSAL

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FRIDAY, MARCH 25, 1994

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT,  
AND RURAL DEVELOPMENT,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The subcommittee met, pursuant to call, at 10:35 a.m., in room 1302, Longworth House Office Building, Hon. Tim Johnson (chairman of the subcommittee) presiding.

Present: Representatives Minge, Pomeroy, Penny, Peterson, Combest, Gunderson, Barrett, Ewing, and Smith of Michigan.

Staff present: Glenda L. Temple, clerk; Anne Simmons and David Ebersole.

## OPENING STATEMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. JOHNSON. We will bring the Subcommittee on Environment, Credit, and Rural Development to order.

I have called this hearing to review the administration's comprehensive proposal, the Federal Crop Insurance Reform Act of 1994, for the reform of our Nation's crop insurance program. The need for reform has been apparent to me for some time, and was dramatized as I toured the Midwest flood States this past summer and listened to the many concerns of the producers throughout the region.

Currently, clearly, our Government is involved in a dual system, one of crop insurance, the other of ad hoc crop disaster payments; and frankly, neither of them work as well as they ought. The general consensus is that the crop insurance program is not fully adequate to the needs of American farmers.

The Federal Crop Insurance Corporation experiences large losses more years than not, pegged at almost \$1 billion this year. On top of this, the Congress has authorized ad hoc disaster programs every year since 1986.

One goal of the 1980 overhaul of the crop insurance program was to eliminate the need for ad hoc disaster programs. Clearly, this has not occurred. Despite the fact that the Federal Government has spent an average of \$1.7 billion, combined, for crop insurance and ad hoc disaster payments each year over the past 10 years, many producers are not satisfied with either program.



Producer dissatisfaction with crop insurance is evidenced by the fact that participation is limited; only 30 percent of the eligible acreage is enrolled, and when they do experience crop losses, coverage is often deemed to be inadequate. Ad hoc disaster payments are unpredictable in that they require emergency appropriations which, in turn, generally requires large regional disasters that are subject to the political whims of the moment. Producers cannot budget for ad hoc disaster payments, and it makes financial planning for them and for the lending institutions virtually impossible.

We have two programs, purportedly working side by side, to help producers, but in many respects, they are working at cross-purposes. The very existence of ad hoc disaster programs undermines producer willingness to invest in crop insurance, and many producers all too often do not take out crop insurance because they believe that the Federal Government will in fact bail them out by offering free ad hoc disaster payments.

I commend the administration for taking a comprehensive approach to reform. Offering one program that combines crop insurance for program crops with catastrophic insurance for nonprogram crops addresses many of the problems enumerated.

This subcommittee must now examine the details of the administration's bill. Above all, any crop insurance proposal must be fiscally and actuarially sound and within our budget requirements. Producers must be convinced of two things: One, that their out-of-pocket costs for insurance must be commensurate with potential indemnities that they may earn; and second, ad hoc disaster programs are a thing of the past.

It will be essential that Congress goes beyond merely restating its opposition to ad hoc crop disaster programs if this reform is in fact going to work. That was attempted in 1980 and proved fully ineffective. Part and parcel of any effective reform will have to be changes in the budget rules that will make ad hoc crop disaster payments in the future exceedingly difficult to come by, rather than simply adding them to the Federal deficit without restraint of pay-go rules.

There are many other concerns that have been expressed to me about the administration's proposal, ideas and thoughts about how to implement this concept, this bill, and I will discuss them later in the hearing.

This hearing is the first in a series I will be having on crop insurance. On April 5, I will be holding a field hearing in Mr. Minge's district in Minnesota, and on April 21, I have scheduled a hearing here in Washington with additional outside witnesses.

But I plan on being, as chairman of this subcommittee, very, very aggressive in moving this legislation through this subcommittee; and I plan on holding a markup as soon as the schedule at all permits. I think this is a matter of extreme importance, and I do not think it is in our best interests to allow this issue to lay over to the 1995 farm bill debate of the next Congress.

I will continue to work with Chairman de la Garza, Ranking Minority Member Combest, and with other members of the committee as this legislation moves to full committee.

I would like to welcome Gene Moos and Ken Ackerman to the subcommittee today. I look forward to hearing their testimony.

I recognize the ranking minority member of this subcommittee, a Member who has great credibility on agricultural issues in general, on both sides of the aisle, the gentleman from Texas, Mr. Combest.

**OPENING STATEMENT OF HON. LARRY COMBEST, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. COMBEST. Thank you, Mr. Chairman.

Mr. Chairman, I believe that we have before us today the foundation of a workable crop insurance program, and if we can find the means to adopt some form of it, we should do so.

With the exception of 1987, the Congress, since 1986, has paid out huge sums annually for disaster assistance in addition to crop insurance indemnities. This legislation has the potential to solve this problem. Assuming the FCIC numbers are correct, I also believe the legislation could provide incentives for producers who have never purchased crop insurance to buy coverage at increased levels at an affordable price. This may be the answer to the low participation problem.

Solving these two issues would be a public policy success for Agriculture. Our problems now lie in the budget process, and as before, when a catastrophic insurance program was discussed, lack of money may be this proposal's undoing.

I know there are different opinions on how this program should be implemented and administered in the field. As we proceed, however, I hope that all of us on the subcommittee will keep an open mind and let the process work. I also hope that the crop insurance industry, as well as FCIC officials, will work together toward a common goal. American agriculture would benefit substantially.

Thank you, Mr. Chairman.

Mr. JOHNSON. Thank you, Mr. Combest.

The gentleman from Minnesota, Mr. Minge.

**OPENING STATEMENT OF HON. DAVID MINGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. MINGE. Thank you, Mr. Chairman. I would just like to make a brief comment, and that is that we have had a chance, of course, to review the outline of the proposed reforms; and I find them very exciting. I think that this is long overdue and represents an aggressive position on the part of the administration to try not only to improve crop insurance, but also to reconcile the inherent inconsistency between a good crop insurance program and an ad hoc disaster program.

My experience has led me to conclude that we have a number of inequities in the crop insurance program as it currently exists, not the least of which is a regional inequity in that users or participants in certain parts of the country are paying a disproportionate share of the cost of crop insurance, and users in other parts of the country are being heavily subsidized both by those premiums and also by the Federal Government.

We have additional problems in that the yield bases in parts of the country and for several crops are very conservative, and this has led to really an extreme level of disappointment and unhappiness with many of the users of Federal crop insurance because they

find that they are not being adequately covered for the losses that they are incurring.

An additional problem that we faced is the difficulty of farmers who are trying to purchase higher levels of crop insurance coverage; and I recognize that there are problems of high premium costs once you receive—reach those levels, but I am hopeful that we will be able to offer a comprehensive package that will give farmers the opportunity to at least elect a level of coverage that they feel is important in their operation, and decide whether or not the cost is one that is prohibitive or not.

Finally, I would like to point out the problem that beginning farmers face—and I know that there is an attempt to address that, but I would like to see it sharpened up a little bit—and that is, how do they deal with the lack of a base, period, to establish a yield that is used to calculate the level of protection that they receive when they have not been farming? And many of these beginning farmers are individuals who have extensive experience with their family. Also many of them are people who have had good training in our universities and technical colleges and are determined to farm using the best management practices, and from what I have seen, many of these beginning farmers have yields which outstrip most of their neighbors, because in fact they are creative, imaginative, hard-working young farmers, and they need and deserve adequate levels of protection as opposed to having to use some type of a county average which puts them at a severe disadvantage.

So these are but a few of the additional topics that I think go beyond the interrelationship between crop insurance and the disaster program that ought to be addressed in Federal crop insurance reform, and I would like to personally thank you, Mr. Ackerman, for the time that you have taken going around the country to explain the ideas that you have been considering in the Federal crop insurance reform, because I can tell you, from my experience, that your visit to Minnesota was very well received, and the credibility of the Federal crop insurance program was enhanced substantially by your taking a day out of your schedule to spend in sub-zero Minnesota after having spent the previous 2 weeks in a much more hospitable climate.

Thank you.

Mr. JOHNSON. Thank you.

The gentleman from Nebraska, Mr. Barrett.

#### **OPENING STATEMENT OF HON. BILL BARRETT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA**

Mr. BARRETT. Thank you, Mr. Chairman. I, too, want to compliment you for holding this hearing on the administration's plan to reform our crop insurance program; and I thank you, Mr. Moos, and you, Mr. Ackerman, for taking the time and the trouble to share with us as well.

At least in the last 8 years that I have paid much attention, we have spent probably \$1 billion each year on disaster payments, and that is on top of, what, a \$900 million set-aside for crop insurance—in light of that spending, I am terribly concerned about the final product, what we might be coming up with. I am hoping that



the reform plan ultimately will make certain that we can stop the disaster payments.

I must say at this point I am a little bit skeptical, but I hope I and the rest of the committee will maintain somewhat of an open mind, and perhaps we can work through this thing and come up with something that is acceptable to everyone.

Thank you very much; and thank you, Mr. Chairman.

Mr. JOHNSON. The gentleman from Minnesota, Mr. Penny.

#### **OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. PENNY. Thank you, Mr. Chairman.

I first of all want to commend Mr. Espy and his colleagues at the Department of Agriculture for their strong leadership on a whole range of issues in the last year. I am excited about their Department reorganization effort; I am pleased with the attention they seem to be devoting to restructuring the foreign ag service and related issues; and here is another example where they are ahead of the curve.

Not that we shouldn't have done something about crop insurance reform many years ago, but to be only 12 months into this administration and to have a major proposal for consideration by Congress is something that is quite encouraging.

Frankly, in all of the years I have been here—and I am not one to make partisan remarks, and I don't mean this in a partisan sense—but I do feel that the efficacy we have seen for farmers in the last 12 months is markedly different and better than the sort of response that we had in all the earlier years. Because you are out front, you aren't lagging behind.

We on this committee aren't begging you to pay attention to an issue. More often than not, we are applauding you for being on top of an issue. And this is just another example of where you have taken charge and put a very laudable proposal on the table.

We mayicker a little about what the payment rate ought to be for the catastrophic coverage and other details of the bill, but in general thrust, it is a sign of—in general thrust, it is a proposal that has a lot of merit, and in the final analysis, I think we can move this legislation rather quickly.

I again just want to compliment you.

Mr. JOHNSON. Mr. Ewing.

#### **OPENING STATEMENT OF HON. THOMAS W. EWING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS**

Mr. EWING. Thank you, Mr. Chairman, and thank you for holding these hearings.

And to our guests, thank you for your appearance and your involvement.

In the short time that I have been in Congress, Federal crop insurance has been an issue in my district and something that I have been trying to work to improve, have introduced some legislation in that regard, worked with both sides of the aisle in the Bush administration, and now in the Clinton administration, to try and

come up with a plan that works. And I think we are making some headway.

I think we have the basis with this legislation to do something to help make our crop insurance program the floor or the net that we need to protect agriculture from disasters and, hopefully, to avoid the need for special disaster payments.

I would say that a problem we have here in Washington often is trying to make one size fit all. American agriculture is very diverse; it is very different even in Illinois from one district to another and from one section to another. So I think we have to look at that and see if we can make flexibility in the program, put flexibility in the program so that it will work and it will serve as many of our agricultural producers across the Nation as possible.

In our particular area in Illinois, without bragging, we have the best, and when you have the best farmland in the world—and I am not bragging—then, of course, you have to have higher limits if you are going to have protection, and that is a problem. We have producers who would never have collected under the current programs, who aren't real interested in a program when it doesn't benefit them.

So I look forward to working with you and with the chairman in trying to have some input on this legislation; and hopefully, we can get a good bill and get it signed soon.

Thank you.

Mr. JOHNSON. The gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. Thank you and everyone for their leadership. Rather than plow all the ground one more time, I will just say, amen, let's get going and let's get it done.

Thank you.

Mr. JOHNSON. The gentleman from Michigan, Mr. Smith.

#### **OPENING STATEMENT OF HON. NICK SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN**

Mr. SMITH of Michigan. Mr. Chairman, thank you.

Also, Mr. Ackerman and Mr. Moos, I compliment you on your energetic work.

I would especially like to associate myself with the comments made by the gentleman from Minnesota, Mr. Minge. I think that we need to resist the temptation to require everybody to pay a base premium that spreads the cost and makes it cheaper for everybody. The more we can make premiums reflect real risks for different areas of the country and for different farmers, the greater the chances are that it will be well accepted and well used in agriculture.

I see an agricultural community in Michigan that has been reluctant to buy crop insurance simply because the costs were much greater than the ultimate benefits that most farmers have experienced.

I would like to make one more comment. It is unfair that there has to be wide spread disasters in order for a single farmer to receive benefits. A farmer can be wiped out by hail, but if the county isn't declared a disaster that farmer doesn't get as much help. As a freshman, I see a Congress that has changed over the years since I was in USDA. There is less interest in the future of production

agriculture; there is probably less knowledge of how agriculture really works. So I am concerned that pressures coming from the political system outside the Department of Agriculture put consumers' interests higher than they should be in determining how to best develop a strong future for production agriculture.

Thanks, Mr. Chairman.

Mr. JOHNSON. Thank you. We will proceed with our panel. We have a one-panel hearing today, but I think it will be very valuable to the subcommittee and to our staffs.

With us today is the Honorable Eugene Moos, who is Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture; and he is accompanied by Mr. Kenneth Ackerman, Manager, Federal Crop Insurance Corporation of USDA.

Welcome to you both. Your full statements are received for the record, and you may choose to summarize or to proceed however you wish. We welcome you to the subcommittee.

**STATEMENT OF EUGENE MOOS, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY KENNETH D. ACKERMAN, MANAGER, FEDERAL CROP INSURANCE CORPORATION**

Mr. MOOS. Thank you very much, Chairman Johnson, for the opportunity to appear before you this morning. We want to express our appreciation to you and to the members of this subcommittee for their interest in this very important issue.

I am particularly impressed by the interest that is being shown here this morning in terms of the number of your subcommittee members who are still in town and felt it was important to be a participant in this kind of a hearing.

Before I turn over the testimony to our Manager, Ken Ackerman, I would like to make a couple of comments. I have a short statement that I hope can be included in the record. But I want to talk for just a second about the fact that the Department is very mission-oriented.

One of the missions, of course, is the mission that my office is responsible for; namely, for the mission to maintain the viability of production agriculture in this country. And that is, as I look at the challenge in that regard, I look at the need for the necessary tools, both the domestic policy tools as well as the international policy tools, to accomplish that kind of a mission. We have got to maintain a viable agricultural economy out there across the United States, and we have got to have the tools then to compete in the world market if we are going to really take advantage of the comparative advantage that we have here in the United States as regards our agricultural potential.

I look upon crop insurance as one of the most important tools in terms of domestic policy. Given the huge capital requirements on an annual basis that American farmers experience each year, we need to do what we can to provide a basis of strong support in that risk management.



So, again, I welcome the opportunity to appear here and thank you very kindly; and I will now call on the Manager, Ken Ackerman.

[The prepared statement of Mr. Moos appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Moos. Now, Mr. Ackerman.

**STATEMENT OF KENNETH D. ACKERMAN, MANAGER, FEDERAL CROP INSURANCE CORPORATION, U.S. DEPARTMENT OF AGRICULTURE**

Mr. ACKERMAN. Thank you, Mr. Chairman. I want to echo Under Secretary Moos's thanks to the subcommittee for holding this hearing very promptly and for moving very quickly on this proposal. Secretary Espy transmitted legislation to Congress just a few weeks ago, and we are already at this point in the hearings.

This is a proposal which, because of the timeframes involved and the possibility of the thought toward implementation, really requires action on a fairly quick basis; and we do very much appreciate this very prompt hearing and discussion of the legislation.

As was evident from a lot of the comments by members of the subcommittee, crop insurance is a program which, as much as any other program in Washington, has been the subject of criticism, discontent, and of calls for change; and those calls for change come from almost every direction. You hear criticisms from farmers, from taxpayers, from Congress, from Presidents, from GAO, from the Inspector General—you name it, and they have criticized crop insurance.

To a great extent, much of the current dilemma comes from the fact that crop insurance is caught between two major historical forces. On the one side, the past half-dozen years we have seen an unprecedented parade of natural disasters causing damage to agriculture. Beginning with the 1988 drought of the century, the 1989 drought, the 1992 hurricane of the century, the 1993 flood of the half millenium coming the same year as a major drought in the Southeast.

Farmers are very aware today that they need protection. Along with the awareness of risk, we are undergoing a period of historic budget restraint. Because the Federal Government of this country has a historically high deficit, deficit reduction is one of the pre-eminent domestic priorities.

Last year, as part of the reconciliation process, Agriculture was required to make cuts of \$3 billion. Presumably as the deficit reduction pressures continue in future years, Agriculture will continue to be front and center. So crop insurance finds itself between these two forces of more awareness of risk and tighter budgets.

The problems were highlighted very much by the crisis last summer, the combination of a major flood or series of floods in the Midwest coming at the same time as a major drought in the Southeast. These crises really exposed many of the problems in the crop insurance program.

For one thing, there was the sheer magnitude of the loss. Just to give you some impression of it, for crop year 1993 to date, the crop insurance program has paid out \$1.64 billion in claims to farmers across the country. By comparison, in 1992, the year of

Hurricane Andrew, we paid out \$920 million in claims across the country. That is \$700 million less; and the difference is the amount of damage that occurred in American agriculture this past year.

To give you another comparison, in crop year 1988, the year of the big drought, we paid out \$1.2 billion in claims at a time when our system was not as financially tight as it is today. That, too, is \$400 million less than we paid out for 1993, again because of the magnitude of the damage in American agriculture last summer.

The kind of weaknesses that this revealed in the crop insurance program surfaced on many levels. For instance, the fact that most farmers did not have preventive planning coverage, something that we have since fixed to a great extent; the fact that we had a problem with overly rigid price selections.

But the biggest problem that was made evident by the crisis last summer is one that Chairman Johnson mentioned and that a lot of other Members have referred to, and that is that we have developed in this country over the past several years two parallel systems operating side by side, trying to address the same problem, which is crop loss for farmers from unavoidable, natural causes.

On the one hand, you have crop insurance costing upwards toward \$900 million every year, a lot of money; and at the same time, despite that investment, the Government has had to step in, Washington has had to step in with ad hoc disaster payments in 8 out of the last 8 years, as the chart over here demonstrates.

What we have seen is that disaster programs are good at serving a purpose. They have, in fact, gotten millions of Americans through times of very severe crisis. They were a very responsible act of Government.

However, ad hoc disaster programs have created a very harmful type of uncertainty, both for farmers and for taxpayers. From the farmers' point of view, the main problem is that if you do not have crop insurance and you are relying on disaster aid, you simply don't know at the beginning of the year what your protection is going to be.

As you can see from the chart, some years there were large disaster programs, and some years there were none at all. Some years the formulas were different than others.

If you are a farmer and you suffer a loss and you don't have crop insurance, you have to worry whether farmers in the rest of your State or in 10 or 20 other States are having similar losses in order for the political momentum for a disaster bill to move forward.

Farmers who suffered losses from Hurricane Andrew in 1992 received disaster aid at 50 percent proration. Farmers who suffered losses in the 1993 flood received the aid at 100 percent proration.

From the point of view of the farmer who suffered the loss, it was no different from one year to another; he or she suffered a loss. However, because of the number of States involved, the aid was different. This kind of uncertainty is simply no way to run a farm as a business.

From the point of view of taxpayers, you have the same problem. Ad hoc disaster aid is off-budget, emergency spending. It is voted by Congress, signed by the President; it goes directly to the Federal deficit. It is not subject to the same types of budget discipline rules that govern virtually every other kind of Federal spending.

As a result, what we have seen is that while the average disaster aid expenditure over the past 10 years, simple arithmetic average, has been about \$1 billion a year for crop loss, the disaster—the average expenditure over the past 6 years has been over \$1.5 billion. The numbers keep rising, and we are seeing a growing resistance, both within Congress and in the public, to this continual parade of disaster bills. Every one of them has become incrementally harder to pass on the floor of the House and Senate.

In response to this set of problems, Secretary Espy announced 3 weeks ago a reform package which tries to correct crop insurance from a number of directions at once. The centerpiece of the proposal is the Federal Crop Insurance Reform Act of 1994 which this committee is now considering. And the core purpose of that legislation is to resolve this conflict between crop insurance and ad hoc disaster aid.

The way we propose to do it is to combine the two, insurance and disaster aid, into one, single, unified on-budget program.

To do that requires two steps. On the one hand, we have to cut off or drastically reduce the possibility of passing ad hoc disaster bills in the future. We propose to do that by amending the Budget Enforcement Act to make future crop disaster spending on-budget, to take away its emergency designation. In other words, in the future, a crop disaster bill would have to be paid for with offsetting cuts.

We feel this is a very significant, very serious parliamentary hurdle against these types of bills in the future.

The second step is to protect farmers in the absence of ad hoc disaster bills. We propose to do that by expanding the crop insurance program. What we would do is to take the program somewhat as currently structured with a number of reforms and expand it by creating a new level of catastrophic coverage that would be made available to all farmers of insurable crops for a processing fee. The Government would pay the premium for this low-level coverage, something like a rainy day fund to protect against a catastrophe, and the farmer would pay a processing fee of \$50 per crop per county with a cap of \$100 per county.

The type of coverage that this would provide would be 50 percent of individual yield at 60 percent of price. We chose those levels in order to provide a payment similar to what farmers would have gotten under disaster bills over the past several years. We understand that this comparison is not exact; the formulas are a little different. In many cases, what they would get under 50/60 catastrophic is a little bit less than they would have gotten under disaster bills at 100 percent proration; but again, who knows whether next year there will be a disaster bill at 100 percent proration?

I direct the attention of the members of the subcommittee to a number of charts toward the end of the testimony setting out specifically how 50/60 coverage would compare to disaster bills over the past couple of years. The one key difference, however, is, catastrophic coverage is an insurance policy; it is not ad hoc. It is something certain. It is a financial asset that a farmer would have at the beginning of the year. They can use it as collateral on a loan from a bank. Moreover, even if no other farmer in the country suffers a loss, they are guaranteed protection.



In order to make sure that the largest number of farmers in fact get their hands on this coverage, we are proposing to link it to participation in farm programs and Farmers Home Administration loans. In other words, to get a deficiency payment or to get a Farmers Home loan, a farmer would have to acquire catastrophic coverage or more.

Our projection is that this would result in participation increasing from approximately 33 percent to about 80 percent, as the aquamarine colored chart will show you. The 1993 level shows you our current participation of about 33 percent. The total bar shows you what we project to be the full participation in the program based on linkage. The dark blue bar on the bottom shows what we expect to have slowly, over time, an increase in buy-up coverage at higher levels.

Third, in order to encourage farmers to get higher levels of coverage, we are proposing to sweeten the pot at the higher levels. The reform bill will provide targeted incentives so that a farmer purchasing coverage at a 65 or 75 percent yield level would get an out-of-pocket discount of about 10 to 15 percent.

In order to make delivery more convenient for farmers, given the fact that we are looking at a linked program, we are proposing a change in our delivery system. Currently, as you know, crop insurance is delivered through private agents representing private companies which are reinsured by the Federal Government. We are proposing that the system in place to deliver buy-up coverage to remain the same. We think it has worked well; we think the private sector has done a good job.

However, for catastrophic coverage, because of the very serious workload implications, particularly in the early years, we are proposing that a farmer would have a choice. They can either purchase it through a private agent or through a local office of USDA.

Finally, for those crops that are not covered at all under crop insurance, we are proposing to provide a standing disaster program structured very much like disaster programs are structured today. We did not want to expand crop insurance into those areas where we are not ready. We want to keep the program actuarially sound, and so for those crops that are not currently covered, we are providing a standing disaster program with an area trigger.

Again, just for clarity, in our testimony you will notice that we have included a list of all of the crops that are currently covered under crop insurance. There are about 50 of them, and they cover two pages. We have also included a list of crops that are currently in the pipeline to be added to crop insurance over the next 2 to 4 years. The crops on these lists that are covered by crop insurance, would be under the catastrophic coverage system. Those that are not on the list—that are not covered by crop insurance, would be covered by the standing disaster program. We do not want to leave any crop totally out in the cold.

The price tag for this program is summarized by the next chart. Basically what we are looking at is this: The cost of adding catastrophic coverage, plus incentives for buy-ups, plus providing the standing disaster program will add about \$1 billion a year to the cost of crop insurance.

What we are trying to do conceptually is basically to rechannel the money that the Federal Government has been paying for ad hoc disaster relief over the past 10 years and rechannel it into a crop insurance program. We feel that this is a better deal for farmers because they get certainty; and we feel that it is a better deal for taxpayers because they know in advance what their exposure is.

That is the sum of our legislative proposal.

I want to take a brief moment, if I may, just to mention the other two parts of our reform program for crop insurance, because I think when you look at the legislation, it needs to be looked at in context.

The second major element is the Blueprint for Financial Soundness, which is the document that is an attachment to my prepared statement.

As Chairman Johnson mentioned earlier, one of the chief criticisms of crop insurance over the years is that it chronically loses money.

Our average loss ratio over the past—since 1981 has been \$1.47. That means that we pay out \$1.47 in claims for every \$1 we take in in premiums, not counting overhead costs. Any private business that ran numbers like that would have gone bankrupt years ago. It is simply not an acceptable way to do business. Our feeling is that American taxpayers will not tolerate it.

The reconciliation bill passed by Congress and signed by the President last year requires us to improve that loss ratio to 1.1 by the fiscal year beginning October 1995. We are committed to reach that goal. The blueprint document spells out the steps that we are taking to get there.

It includes items like our actual production history records program, our nonstandard classification system designed to isolate and identify high-risk farmers in high-risk areas and adjust their rates, increased emphasis on compliance, and our new participant tracking system.

The third major element is an attempt by USDA and FCIC to make this program more flexible, more responsive to farmer needs. We hope to do that through a number of steps, including more innovative products, more flexibility on items like units, price selections and crop-specific issues that have come up, and also to develop a better attitude toward listening to farmers and listening to agents, listening to companies, listening to the people who are involved in this program.

On this note, I would mention that in putting this program together, we spent a lot of time talking to farmers. We held meetings with farmers across the country. Mr. Minge mentioned my day in Minnesota with the subfreezing temperatures. I would only mention that I personally am from Albany, New York, and grew up in heavy winter weather. Every winter in Washington for a few days in December I started to feel nostalgic for it.

I thank Congressman Minge for an opportunity to get that out of my system early in the year.

So with that, I thank the committee for holding this hearing; and we would be happy to answer any questions you may have.

[The prepared statement of Mr. Moos and Mr. Ackerman appears at the conclusion of the hearing.]



Mr. JOHNSON. Thank you, Mr. Moos and Mr. Ackerman.

The chairman will try to enforce a 5-minute rule on members' questions. We can come around as many times as it requires, but that will, I think, allow everyone a more orderly way of asking their questions.

One of the concerns that all of us have is whether there will be a sufficient buy-up above the catastrophic coverage. If that does not occur, it will jeopardize the viability of this entire strategy, and there will be tremendous pressure to once again augment crop insurance benefits with some kind of catastrophic—or some kind of ad hoc payment. It is going to be very important that people understand the need for more than catastrophic coverage.

I wonder if you would comment on that, about whether catastrophic coverage is in fact adequate, and how you envision promoting better coverage than that, and for people to buy better coverage than that.

Mr. ACKERMAN. Mr. Chairman, I think that is a very important question. Catastrophic coverage, the way we envision it, is basically a replacement for a disaster payment. It is a way of replacing the disaster programs by providing farmers with a base coverage. But you are correct that for farmers to run their operations in a businesslike way, in most cases they would require a higher level of coverage. And the more farmers that have higher levels of coverage, the more sound the system is going to be. Also, the farmers who buy higher levels of coverage, will be in a position to withstand a real disaster with some meaningful financial stability.

When we designed this program, we thought one of the most important elements was the financial incentives for buy-ups. We specifically did not want to have a program where there would be incentives for farmers to buy down rather than to buy up. That was why we did not want to sweeten the pot too much at the catastrophic level. We thought 50–60 was enough to replace a disaster program, but it was not so much that it would entice farmers to get lower levels of coverage rather than higher levels of coverage.

In order to get farmers to buy up, we think that a number of things have to happen. First of all, we feel that the subsidies at the higher levels are essential. As we have noted in the testimony, this will result in an out-of-pocket discount for farmers of about 10 to 15 percent.

We also think that the private sector is going to have to work very hard to convince farmers to buy up. A good deal of public education is going to be required to make this program work well.

We are also going to have to do a good bit of training for the USDA county offices, so that when farmers come in to use those offices to get catastrophic coverage, they are sensitized to the need for higher levels.

Mr. JOHNSON. One of the most controversial aspects of any farm policy decision we make is that whenever we tie it to participation in farm programs and give it a mandatory nature—I think all of us have an initial reaction against mandatory programs, although in this case it is one where it may be mandatory; but it is one of the best buys imaginable, \$50 for a crop coverage. Still, that is a sore point with some people.

I wonder if you would comment about some who have suggested that maybe there ought to be a waiver outlet that in effect a farmer would have a choice if he so chose to release himself from buying that catastrophic coverage, so long as he very explicitly waives not only the crop insurance, but the ability to participate in any kind of crop disaster program.

Mr. ACKERMAN. We feel the linkage provision is very important, and we would have a serious concern about the waiver proposal. The basic reason is this: Obviously, we understand that farmers, like anyone else, do not like mandates; people don't like being told what to do. Our main concern is that we don't want to have a situation 2 or 3 years down the road where we have gone through the trouble and the expense of reforming crop insurance, such as putting in place these parliamentary hurdles against future disaster bills, and a crisis strikes—a flood or a drought or whatever—and it turns out that a large number of farmers, for whatever reason, simply have not acquired the coverage, either because they were skeptical of a new Government program, or because the word hadn't gotten out well enough, or because of simple inertia—for whatever reason.

If you have a large number of farmers who have not acquired the coverage, then that creates two problems. For one thing, those farmers are unprotected, and for another, that could create the very kind of political pressure for this new program to unravel.

Mr. JOHNSON. The gentleman from Texas, Mr. Combest.

Mr. COMBEST. Thank you, Mr. Chairman.

Mr. Ackerman, I have to get this down to where I can understand this. Say I have three farms in one county. On farm A, I have 500 acres of cotton and 500 acres of grain. On farm B, I have 500 acres of cotton; and on farm C, I have 500 acres of grain. When I go in to sign up at the ASCS office, how do they determine how much I owe for the catastrophic coverage? Is it per farm or per crop?

Mr. ACKERMAN. It is per producer, per crop, per county.

Mr. COMBEST. I am the sole producer.

Mr. ACKERMAN. If you are the sole producer and all of these farms are in one county?

Mr. COMBEST. They are.

Mr. ACKERMAN. Then you would pay \$100.

Mr. COMBEST. So \$50 for the cotton and \$50 for the grain?

Mr. ACKERMAN. That is correct.

Mr. COMBEST. So I would have 1,000 acres of grain and 1,000 acres of cotton, even though the farms are separate—it is totally separate entities as far as ASCS records—I would only pay for, per crop?

Mr. ACKERMAN. You would pay per crop, correct.

Mr. COMBEST. Within the county?

Mr. ACKERMAN. Yes.

Mr. COMBEST. If I only farmed 100 acres of cotton in the entire county, it would also be \$50?

Mr. ACKERMAN. That is correct.

Mr. COMBEST. Let me back up.

On those farms, I am a sole producer and I have that question answered, so it is per crop.

If I am farming within a county and I am a tenant farmer, obviously the amount coming to—or through ASCS to Federal crop insurance for my catastrophic premium would be the same. Would it split at the ASCS office where I would pay my percentage and the owner of the land would pay their percentage, based upon our farming agreement?

Mr. ACKERMAN. I must tell you that on some of these points, that level of detail of how it would be divided between——

Mr. COMBEST. That is very understandable.

Mr. ACKERMAN. The one clarification I would make, though, is that the \$50 or \$100 is not premium.

Mr. COMBEST. Sure. The terminology is important; I was just calling it that.

In a situation, in your testimony, the next-to-the-last page; if it doesn't surprise you, I have turned to the cotton page. In the example on either one, actually it wouldn't matter whether it is example one or example two in the amount; let's take example one, so we will be talking about the same one.

The catastrophic protection, per acre, on a loss would pay that farmer \$64.55 an acre?

Mr. ACKERMAN. Correct.

Mr. COMBEST. Tell me exactly how the price is determined to where you are arriving at 60 percent of the price. How exactly is that price determined?

Mr. ACKERMAN. The 60 percent price is based on the projected market price that is picked by FCIC at the beginning of the growing season, based on projections by the World Agricultural Outlook Board.

Mr. COMBEST. And that is the same way it is done today?

Mr. ACKERMAN. That is correct.

Mr. COMBEST. In this example, so I don't have to figure backwards, would that be the 53 cents a pound in both of those examples?

Mr. ACKERMAN. Yes.

Mr. COMBEST. The deficiency payment obviously would have still been made in that example?

Mr. ACKERMAN. Yes.

Crop insurance does not have an offset with deficiency payments like disasters.

Mr. COMBEST. I often think it was probably crop insurance that caused our former chairman to leave the Congress and go to another job. Hopefully, that won't happen to Mr. Johnson.

This subcommittee itself has been dealing with this thing for years and years. I will say I will have to—Mr. Penny left, but I will have to agree with him on a portion of what he said in his non-partisan effort. We have been trying in this subcommittee for years to come up with the magic word, adequate crop insurance program, to replace disaster. And I think that the message has got to be—I will just finish this comment, Mr. Chairman, and then come back later.

The message has to be sent, we have to deliver the message; and you said what we have to do is get the word out; that so many farmers anticipate because it has happened so regularly, that there

is going to be a disaster program, many of them decide not to play in the program. And we have to try to get that message out.

Our biggest problem has always been getting—having the opportunity to have credit for how much was being expended on disasters and being able to put that into the crop insurance program and come up with a chart like you did where you are going to save \$750 million; we could never get credit for that.

And as you and I discussed in the office—in my office, I think the biggest difficulty may potentially be that; but if we can overcome that hurdle, I feel very comfortable that we can come up with an adequate crop insurance program that will be very attractive to farmers and hopefully will even exceed your anticipated participation proposal and have a lot of farmers participate in that program, particularly if we can tie that together with the fact that there probably is not going to be a disaster payment, or that we would work very hard against it.

I have several other things I would like to talk about, Mr. Chairman, I will come back the next time.

Mr. JOHNSON. Mr. Minge.

Mr. MINGE. Thank you, Mr. Chairman.

I understand that we are going to have payments under the 50/60 formula under this program and, of course, there will simply be a sign up fee for the payments that go out.

What I am wondering is if you have any projections as to the amount of money that would be paid out under this base level or catastrophic level of coverage of Federal crop insurance as proposed compared to the money that would be paid out as farmers insured at the higher levels?

I am particularly interested in this because what I see is that there are certain sections of the country where there is, say, a hurricane or some other catastrophic event that results in almost total destruction, and other parts of the country it is once in 100 years or something that we have a level of crop loss that will exceed 50 percent, and I think there is a certain regional issue that is at work here, and it would be important to have that on the table so that as this moves through Congress, if there is any debate, that can be taken into account and we don't have people coming up later and complaining that this was not adequately addressed.

Mr. ACKERMAN. Two points. First of all, on the question of actual projections, yes, we have those numbers and I can supply those to you. I have them here.

Generally, what we have looked at, what we have broken down is how much of the total budget, how much of our indemnities we expect will be paid out under catastrophic versus under buy-ups. As a general matter, just based on this chart showing the relative number of farmers with buy-up versus catastrophic, we would expect over time that more would be paid out through buy-up rather than catastrophic. So we will provide you the specific numbers for the record, but generally that is the direction that they move.

[The information follows:]



**Crop Insurance Reform: Estimated Indemnities by Fiscal Year,  
by Coverage Level, Fiscal Years 1995-1999**

	1995	1996	1997	1998	1999	95-99
	Millions of Dollars					
Catastrophic (50/60)	351	392	378	389	363	1,853
Buy-up Coverage	1,131	1,284	1,485	1,681	1,874	7,456
Total	1,482	1,677	1,863	2,049	2,238	9,309

**Crop Insurance Reform: Number of Participants by Fiscal Year  
by Coverage Level, Fiscal Years 1995-1999**

	1995	1996	1997	1998	1999
	Thousands of Participants				
Catastrophic (50/60)	357	325	299	278	261
Buy-up Coverage	312	353	387	416	441
Total	669	678	686	694	702

Note: Participant count is based on assumption that average farmer has 2.5 crops.

Mr. MINGE. Do those numbers reflect the different type of crops, different regions, where this level of disaster assistance would be important as compared to other regions?

Mr. ACKERMAN. The numbers we put together thus far just simply on a nationwide level breakdown the amount that would go out catastrophic versus the amount that would go out through buy-up. We have not done a projection—it would be a very hard one to do—about how many farmers in different parts of the country would purchase buy-up versus those who would not.

Mr. MINGE. I am not talking about purchasing it. What I mean is, if the base level as a requirement for participation in Federal farm programs of any type will have this high level, hopefully 80, 90 percent participation, and if there is something that shows either by crop or by State what you feel the level of pay out would be under the base of the catastrophic level, that is the type of breakdown I am looking for, not farmer by farmer.

Mr. ACKERMAN. We could try to put something together like that, yes.

Mr. MINGE. I think it would be important in terms of fairness as this moves along to address that.

Second, there have been a number of objections that have occurred over the last year to the Federal crop insurance program because those farmers who have livestock operations and feed their crop can have an effective farm program without participating in any of the commodity programs, and they feel that the price election that is available to them is not really adequate, and what they have ended up with is with a program crop like corn, they do not have the target price, that is, the price that is used for the calculations but instead a price which is substantially lower, and going beyond that, they find that there are other penalties that they feel are built into the system.

Does the proposal that you have presented address the inequities that those farmers that feed their crop face as compared to those that simply are doing cash cropping?

Mr. ACKERMAN. Not directly. We understand that there are two particular problems that farmers who feed their crops face that need to be addressed. One is the question of how they would fit within the APH program, because in many cases, farmers who feed their crops don't have sales records on which to base their actual production history yield, and that is something that we are going to have to work with in the APH program to correct. There are ways that we can develop for them to get an accurate yield other than the records used by farmers who sell their crops, and that is something that we are going to have to correct.

On the question of the price election, that is an area which is problematic throughout our program and which became very apparent this year. As mentioned this year, in response to Mr. Combest on cotton, we pick a price election at the beginning of the growing season and hold it throughout the year. That is the way our program works.

This year it became very clear that that was not an adequate way to run our program. We had situations, for instance, with the price of wheat where we picked a price last summer of \$2.80, which was based on the projections of the World Outlook Board at that

time. However, given the drought—the flood over the summer and the run-ups in the markets in the fall, that price became out of date.

We have had a similar situation with corn prices going up very sharply. This is a problem that we are going to have to address programwide. So far we have taken an initial step by approving a private sector wraparound policy that would provide replacement cost coverage, and there are one or two others like that in the pipeline. In the legislative proposal we have put before you, it contains statutory language to allow us to fix that and provide an actual market price on a more systematic basis.

Mr. MINGE. Thank you.

Mr. JOHNSON. Mr. Ewing.

Mr. EWING. Thank you, Mr. Chairman. I think that the administration's plan to put more money in this program certainly eases our ability to come up with a better plan. That was one of the problems I was having, trying to make a better plan with no more money. The money that we are talking about here, basically is that the disaster money that was for crops or was that disaster money for roads and houses and everything else?

Mr. ACKERMAN. It is solely the disaster money for crops. It does not include the other disaster money.

Mr. EWING. Very good. What would happen if there is a request—and I will just use the amount \$1 billion, by the administration for the program and yet we appropriate—the Congress decides to appropriate less than that amount? What happens if we have claims? Will they be prorated?

Mr. ACKERMAN. No, they would not. Under the appropriations rules governing this program, the money for indemnities comes out of a FCIC revolving fund which is paid out of an annual mandatory appropriation. So, no, that would not occur. You would not cut off payments to farmers because we reached any kind of spending cap.

Mr. EWING. Very good. I think that is an important point to make.

I think I understand that the signup fee is an administrative-type charge not allocated to the size of the operation.

Mr. ACKERMAN. Correct.

Mr. EWING. Why would you do that as compared to having even a floating signup fee for big farmers who really are getting a 50 percent coverage, maybe only by paying the administrative fee? Why wouldn't big operators pay a little more for that sign up?

Mr. ACKERMAN. Well, under the proposal, some big operators would pay a little more if they were in more than one county because the cap is \$100 per county. But as a general matter, what we were trying to do here was to provide a form of insurance that replaces disaster payments. As you know, you can get disaster payments without a signup fee no matter how big your farm is. It does not have a signup fee that varies by acreage, so to the extent that there may be an implied inequity here, it is carried over.

But we were trying to keep a differentiation between the premium which the Government would pay and a processing fee which the farmer would pay, and generally the cost of processing is based on the number of units or based on the number of farms, and that \$50 is designed to cover simply the cost of processing the paper. We

do not want to start getting into the complexity of formulas based on the size of farms because then it would really look like you are paying a premium, which you would not be.

Mr. EWING. One final question. When you talked about crops that weren't covered and that they would be covered under the standing disaster program, do we have a standing disaster program that would apply for noncovered crops?

Mr. ACKERMAN. Yes. It is part of the legislative package to create it and it is modeled after the current program with a number of adjustments.

Mr. EWING. So we don't now have such a program? It would be part of this program to create a new one?

Mr. ACKERMAN. That is right.

Mr. EWING. Thank you very much.

Mr. JOHNSON. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. This question may be a little off the wall, but in the last year, I think it was in some bill last year, we got this pilot project put in that we were going to have a look at revenue-type insurance in Minnesota, North Dakota, and Mississippi, or do either one of you remember that?

Mr. ACKERMAN. It was report language that was put into the reconciliation bill, yes.

Mr. PETERSON. Is that now out the window or are you going to—

Mr. ACKERMAN. No, it is in the works. What we have done on that particular language is that we have asked the Economic Research Service to do a study on what is involved in it, and there are a number of hurdles to doing it that are going to have to be worked through. The idea would be to base the insurance on the cost of production rather than the value of the crop, which is a new idea.

There are a number of concerns about how you get the right actuarial data to know how to price it. There are some concerns of what you do in those situations where the cost of production is, in fact, greater than the value of the crop and how to design it, but that is underway.

Mr. PETERSON. When is that going to be completed?

Mr. ACKERMAN. I don't know the exact due date from ERS. I know we had an initial report from them where we have been reviewing it. Probably, we would be looking for something for 1995, some type of pilot.

Mr. PETERSON. So this hasn't set that aside, then?

Mr. ACKERMAN. No.

Mr. PETERSON. I haven't had time to read your whole proposal on that. I am not sure if I understand it yet, but one of the issues that keeps coming up is who is going to decide the yields out there. Has that been resolved? Are you going to have ASCS or the Federal crop, one or the other do it or are we going to have a system where they both are involved? Is that addressed?

Mr. ACKERMAN. Under this system, the yields would be based on the FCIC rules, and they would be actual production history yields rather than the ASCS program yields.

Mr. PETERSON. So the SCS is taken out of it, then?



Mr. ACKERMAN. The ASCS would be an implementer in that the farmer could go to the ASCS or a farm service agency to get the work done if they choose to do so, but the rules that would be followed in determining the yields would be the FCIC actual production history record rules.

Mr. PETERSON. And if they don't have those history—I was reading this. I probably don't want to go into that right now but I guess I will have to take some more time to look at it and try to see if I can—maybe what I am going to have to do is go down to the ASCS and try to sign out and see how this works. In the abstract, it is pretty hard to figure out, so—

Mr. ACKERMAN. I could just tell you that, very briefly, you are required to have 4 years of records, building to 10. If you don't have those 4 years, you are given a program yield but at a discount.

Mr. PETERSON. This whole idea of getting to a 1.1 to 1 ratio. I guess I don't understand how these actuarial computations are made and maybe I need to sit down with somebody, but it is unclear to me how all that works. It has always been a mystery. Can you explain that in 1 minute or less?

Mr. ACKERMAN. I can try. This one is a mystery for a good reason. It is not a straightforward situation. These actuarial numbers, 1.1 or 1.4, are designed to be averages over time. A 1.1 loss ratio means you are paying out \$1.10 for each \$1 you are taking in in premiums. We are trying to get down to 1.1. What that means is over a period of years, the program should be designed to produce that as an average.

We would expect, for instance, in a year like 1993 with a major flood and a major drought, our loss ratio would be 2.16 and that is acceptable.

Mr. PETERSON. But if you get to this level, aren't you, in effect, going to raise the premiums to make this happen?

Mr. ACKERMAN. Yes. In order to get there, we are having to take a number of steps. We are trying not to do all of it by raising premiums, but that is one of the steps we are taking. Premiums will be raised in various—

Mr. PETERSON. Is that going to make it harder to get the people to buy this insurance? I guess that is my concern. Do we know what the effect of this is going to be? Have you got a model that you can say with certainty just exactly what the outcome of this is going to be?

Mr. ACKERMAN. We can never say with exact certainty what the effect will be. There are some concerns that over the past few years we have been raising rates and there has been some movement of farmers from the 75 percent protection level down to 65 percent. We are trying to raise rates moderately and not do it too quickly. We don't want to lose our good customers. We are also trying to get to that 1.1 loss ratio by taking a number of other steps, such as the actual records and tracking systems and trying to isolate the highest risk farmers, the farmers with disproportionate losses and then adjusting their rates first. It is one of those unavoidable steps we have to take.

Mr. PETERSON. Mr. Chairman, I have to go to another meeting. Could I just ask one related to this?

Mr. JOHNSON. Proceed, without objection.

Mr. PETERSON. Mr. Durbin's idea about knocking out people who are in an area where they have had losses 7 years out of 10 or whoever's idea; is that in here at all? Just yes or no.

Mr. ACKERMAN. That is in here but in a different form.

Mr. PETERSON. You are getting at that problem somehow?

Mr. ACKERMAN. Yes.

Mr. PETERSON. I will try to figure out what it is. Thank you. Thank you, Mr. Chairman.

Mr. JOHNSON. Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman, and, Mr. Ackerman, I appreciate your succinct answers and your grasp of the subject matter very much.

Mr. ACKERMAN. Thank you.

Mr. BARRETT. I believe that the reform plan does include for the first time ever coverage being allowed for losses from floods and other disasters which prevent the farmer from planting a crop, and this is an interesting new idea.

Can you share with us what guidelines will be used for such coverage? What is to prevent a person from taking advantage of that particular section, that particular coverage? How do you monitor? How do you adjust? Share with us, please.

Mr. ACKERMAN. To give you a general overview, this preventive planting coverage has actually been available for a number of years as an option but most farmers have chosen not to buy it because it generally is not triggered very often. Last year's flood turned out to be the situation where farmers needed it.

Basically, what it says is that if you cannot plant a crop because of an insurable cause, like excessive rain or whatever, you would get a payment. It is a smaller payment than you would get for a crop loss because you haven't invested as much in the crop. It is generally about half, and it is tied to a late planting coverage, that if you plant past the usual deadline for planting, you would get coverage for that rather than simply being cut off.

Yes, it does raise some compliance issues. It is something we are going to have to watch carefully. We are already having to wrestle with some situations created by the aftermath of the flooding last year where we know, for instance, that there are a number of farms where the soil is still very soggy, where there is sand on the soil from last year, and where there is still water on the soil from last year. We are going to have to make some very close calls about whether the insurer's cause exists within this year's insurance period or last year's. So it is something we are going to have to watch closely, but that is generally how it works.

Mr. BARRETT. How will you know what crop that farmer was going to plant?

Mr. ACKERMAN. How would we know what they are going to plant?

Mr. BARRETT. Yes.

Mr. ACKERMAN. Generally, we ask them. We look at their history of planting. And a lot of these cases with preventive planting, it is going to involve case-by-case determinations.

Mr. BARRETT. There would be possibly an opportunity for exaggeration or taking advantage of the system?

Mr. ACKERMAN. There is always that possibility. We do have a compliance program in the field and they are there for a reason. The companies have compliance programs also for the same reason. I know it is a new program, but we have not been aware, to date, of farmers abusing this in any systematic way, but we are watching this very closely. The biggest problems actually are going to be some of the close questions about drenched fields and soil covered fields and how it will apply there.

Mr. BARRETT. Good. You have touched on—I think Mr. Ewing touched on it basically—a question of noncovered crops. Why not cover, I would like you to elaborate on this, why not cover millet, pinto beans, that sort of thing? You mentioned a standing disaster plan. Would you embellish just a bit, please?

Mr. ACKERMAN. Pinto beans, by the way, I think we do cover in some situations, but—

Mr. BARRETT. Refried beans, whatever.

Mr. ACKERMAN. The reason we do not cover a lot of crops is our program is an insurance program. We need to design it where we charge a rate, a premium rate for the coverage which covers the potential for loss, and where we are not taking on risks that we can't measure or that are disproportionate to the costs.

Mr. BARRETT. You don't have a history, then?

Mr. ACKERMAN. We don't have a history. We know that the crop doesn't have a stable history in a particular area. Before we bring a crop in, we study the rates. We make sure that there is enough history, that we can set a rate that is meaningful. For some of the newer crops or crops that are grown in very small amounts, we have not been able to do that.

Generally, the crops that are listed as being in the pipeline are ones that we have a fairly rigorous analysis underway.

Mr. BARRETT. I have had a few questions already asked from my district in this particular area.

The plan calls for coverage on losses greater than 50 percent at a payment rate of 60 percent. Again, the rationale, and I think Mr. Combest touched on this, why not 80 percent? Why not 40 percent? Would you please elaborate a bit?

Mr. ACKERMAN. Well, again the reason is that we were trying to replicate a disaster payment. We did not want to make this essentially free level of coverage so attractive that farmers would give up their higher levels of coverage and run to it. We wanted to make it, in fact, a replacement for disaster coverage. We were also operating within a budget and we just had so much money available.

Mr. BARRETT. My time is expired, Mr. Chairman. Thank you.

Mr. JOHNSON. Mr. Pomeroy.

Mr. POMEROY. Mr. Chairman, I want to thank you for having this hearing today, and I commend our lead witness. I have spoken with him many times and know that he brings some really strong incisive leadership to crop insurance reform.

Here is a threshold question, Mr. Ackerman. The plan proposed depends upon adequate funding. At this point in the budgeting process, the House did go along with the plan but only to the tune of about three-quarters of the funding required and the Senate didn't go along with it at all. It is my belief that the program does



not work if funded at the level the House provided for it. Do you have a comment on that?

Mr. ACKERMAN. I think generally we would agree that we would need the higher level. I would say that we very much appreciate the action of the House on this because we feel that the House in making the budget adjustment of about \$700 million a year made a very strong statement and adopted the rationale for a baseline adjustment, which was a very historic action. There was a disagreement about the number, but still the action was very important.

The Senate, as I understand it, because of other issues that were raised, never quite reached this issue, so I think we can characterize it as a neutral, which leaves open the opportunity to raise the issue in conference between the House and Senate and hopefully resolve it in a good way.

Mr. POMEROY. I think that that is possible. This is what worries me—the other things that were preoccupying the Senate were removing an additional \$25 billion or something like that from the President's budget. That makes the prospect of them meeting House action to the tune of \$750 million and adding an additional \$300 million or a little better than that to adequately fund this program, I think, unlikely. Not necessarily prohibitively unlikely, but somewhat unlikely.

This committee would have to, in my opinion, strongly object to a proposal that went along with your ideas but only provided the funding of \$750 million as occurred in the House and as was scored by the Congressional Budget Office.

Mr. ACKERMAN. Let me make two points. One is that, as I understand the budget process, and the rules get very complicated as you get into it, but that the baseline adjustment does not necessarily involve increased spending. It is changing a baseline. It is recognizing money that is currently being spent in the real world, \$1 billion a year for disaster aid, and adding it to the baseline from which spending or spending additions or cuts are calculated. So that may provide a way for this to be resolved in conference divorced from the larger issue of whether there will be more spending cuts.

Mr. POMEROY. I think your point is well made. In fact, the proposal represents \$750 million savings over 5 years.

Mr. ACKERMAN. That is correct.

Mr. POMEROY. That comes out of indemnity payments presently received by farmers, insurance or disaster. So to obtain the greater stability of the program you are offering, the farmers and the agricultural sector is prepared to pay a price for that security. Will it be a position of the administration that this has to be funded at the amount requested or the program should not go forward?

Mr. ACKERMAN. I think the way I would have to answer that is this way, we are still proposing the full baseline adjustment that we have put forward. We feel the billion dollar adjustment is reasonable, we feel it is well documented. We feel it makes sense.

When we put together this program with the costs that are in it, we think it is a tight program. I don't see a lot of fluff in it. If there is a lower number that we are presented with, we will go back. We will reexamine our assumptions, we will look at our numbers, run them again, see what flexibility we can find, but at this

point, my impression, and Mr. Moos is here to back me up if need be, is that we are still advocating the full baseline adjustment that we have been talking about. The subsidies for higher level coverage are very important. The 50/60 coverage is designed to serve a specific purpose of replacing disaster aid. The numbers were chosen with care, and so our proposal at this point stands as is.

Mr. POMEROY. Thank you.

Mr. JOHNSON. I share the concerns expressed by Mr. Pomeroy. The surest way to doom any reform is to grossly underfund the reform and then find that it simply does not work, not that the reform was conceptually wrong, but simply there wasn't enough funding to make it truly workable and this is something we will have to monitor very closely and we may have some difficult decisions to make about whether to go forward with the reform if it, in fact, is inadequately funded at whatever level that threshold may be.

Relative again to the mechanics of the legislation before us, I have a lot of concern expressed to me about the use of actual production history for the 4 previous crop years, building up to 10 years and then that use the transitional yields or T yields if the APH is not available when disasters have occurred over several years in a row. In many parts of my State that is true. Or new land is purchased or the land is in rotation, the yield coverage can be extraordinarily low. Is there anything that we can do to address that problem?

Mr. ACKERMAN. Yes, sir. One of the provisions in our blueprint that we have committed to publicly was in response to this very specific concern. It is to provide a catastrophic yield adjustment for crop year 1995. We have heard from many parts of the country involving many different crop concerns about the 4-year APH and the effect of catastrophes on that. Obviously, the purpose of the APH program is to provide a realistic yield projection. For a farmer coming in after this past year's flood with a yield of zero, that is not a realistic projection, and we understand, particularly for many farmers coming in for the first time this year, they are starting out with no records and their first year's record is a zero and they are very much at a disadvantage.

We understand in other parts of the country, for instance, cotton in the South has been hit several years recently very hard. We are very much committed to trying to address that. I don't want to overbill it. A catastrophic yield adjustment will not get everyone to as high of a yield as they would want to be, but it is a way of at least trying to soften this provision to make sure that it is workable.

Mr. JOHNSON. Will you elaborate just a bit on the expense reimbursement formula? How much are insurance agents going to receive for their catastrophic as well as for their buy-up coverage and how that expense mechanism works?

Mr. ACKERMAN. Currently, under the program, the insurance companies receive a subsidy for their administrative expenses set at an industrywide percentage. This year it is 31 percent of the premium. That money goes to the companies to reimburse them for their administrative costs.

Under the new program, for catastrophic coverage, there would not be a premium—there would not be an expense reimbursement.

Rather, the farmer would pay a processing fee of \$50 or \$100. That \$50 or \$100 would go to either the company, if that is where the farmer chooses to purchase it, or the ASCS or farm service agency office. That is what there would be available at the other end. There would also be an allowance for loss adjustment costs.

For the buy-up coverage, we would change the system from the status quo by combining the two current subsidies, the premium subsidy and the expense reimbursement subsidy into a single amount, and in doing that, we would say that if one company can deliver the product more efficiently than another company, that they could pass along the savings to the farmer. In other words, we would start out by giving every company that same 31 or whatever percent for the buy-up coverage, but then allow price competition so that savings could be passed along to the farmer.

Mr. JOHNSON. Would you elaborate just a bit on your belief in the need for a dual delivery system, whether this is going to generate some large training problems at the FSA level and whether this is a transitional or is this a permanent feature of the crop insurance system?

Mr. ACKERMAN. We would view this as a permanent feature. And yes, we understand that getting this up and running does require and involve a certain burden on us, USDA, to put this together. We are going to have to train people in the field. We are going to have to provide computer support. We are going to have to provide data processing support in order to make this work.

However, when we took a look at this project from the beginning, one of the things that stuck out right away, particularly with mandatory linkage, is the workload involved. We are looking at going from 33 percent participation to about 80 percent participation. That means going from about 700,000 policies to about 1.7 million or 1.8 million policies. That is a very big increase in workload.

It became apparent that while there are a number of States, maybe half a dozen to a dozen, where you have 1,000 or 2,000 or 3,000 agents present, there are a lot of other States where you simply don't. To require every farmer to go to a private agent to get this work done, particularly in the early years when we are not sure how many private companies are going to want to get into this business, when we are still trying to work things through, we did not want to run the risk of disruptions in sign-ups during the early years. So the main force driving this is a workload force.

Mr. MOOS. Mr. Chairman, perhaps I could make a comment on that point. Given certain statutory restrictions to go ahead and to plan and to develop the implementing programs here in terms of the merger under the Farm Service Agency, I would encourage everyone to move and to consider moving quickly on the reorganization plan. That could complicate our ability to provide this kind of dual service this fall.

Mr. JOHNSON. I think it is a point well taken. Having consumed my allotted time, Mr. Combest.

Mr. COMBEST. Thank you, Mr. Chairman.

Mr. Barrett was questioning earlier about someone not telling you exactly what they intended to plant in preventive planting. A person would sign up for this when they came in for sign-up; isn't that correct? They would sign up for their participation.



Mr. ACKERMAN. Yes.

Mr. COMBEST. So you would obviously in sign-up know where at least those crops which required identification——

Mr. ACKERMAN. That is correct.

Mr. COMBEST. Have you run the numbers on what your estimated cost of the program would be versus what it is by using ASCS proven yields?

Mr. ACKERMAN. You mean if we were to use ASCS yields instead of individual yields?

Mr. COMBEST. Right. Proven yields, a proven yield within the counties.

Mr. ACKERMAN. Proven yields instead of?

Mr. COMBEST. ASCS proven yields. The yields by which each farmer in the ASCS office has their yields established.

Mr. ACKERMAN. My understanding, when we ran the numbers last year, when we put the APH program into effect and when this was being considered during the reconciliation bill, they were based on ASCS program yields county by county.

Mr. COMBEST. County-by-county average.

Mr. ACKERMAN. Right.

Mr. COMBEST. Rather than by farm.

Mr. ACKERMAN. Rather than the proven yields by farm? I don't think we have the data on the proven yields by farm to make that specific comparison.

Mr. COMBEST. One of the considerations has always been in looking at the crop insurance program, I am an advocate of using ASCS proven yields for crop insurance, and I had just wondered if you, in fact, had happened to run those numbers. There is no reason you necessarily would. I just wondered how much more it would cost. I am sure it would be higher, but in an instance, let's say, where we have got a farmer who signs up for the cotton program. It is too wet, too dry, whatever, and preventive planting is a very significant part of this, I think, is not able to plant, passes the planting date, the optimum planting date, and is signed up and would be eligible for their participation in the cotton portion of that, goes back in and follows, they can also then pay another \$50 at that time on that same acreage that had initially been intended to be devoted to cotton and insure their replacement crop—I guess they would have to, wouldn't they?

Mr. ACKERMAN. I think they would have to, yes.

Mr. COMBEST. They would have to do that, OK.

You kind of addressed the workload. Having come from ASCS years ago, that is always a concern of mine, is how much—they are always very willing, as all agencies of USDA are, to take on extra work, and yet there is a point, obviously, that they can't, and recognizing that there is an interest in moving to FSA rather than ASCS or the other agencies, I am not telling you anything here that I am sure you haven't thought of, but we have found in dealing, for example, in Farmers Home loans and so forth, one of the big concerns we used to have, just the burdensome paperwork, just the stacks of it, and that has been significantly reformed. We want to take a little credit for that just because of our persistence.

But I would think that there would be, in that you have already got established FSA, wherever it is, that we are going to be calling

them by the time this program starts, which I hope would be very soon; that I would think there would be a fairly simple way when a person comes in to sign up, the other sign up work they have got to do anyway, just simply to add this on without a tremendous amount of additional paperwork at sign-up time, which is always a critical time because you have everybody coming in at one time.

The workload would seem to be that it could potentially be increased when one has to start making those assessments. Of course, they have to go out and spot check anyway during the year with various farms, but I could see there to be a potential add-on there of work which might not normally be required in doing normal, what we consider today ASCS duties.

And just from a personnel standpoint, going into this, if there is some kind of way, and I know we used to be able to do this and still do in some agencies, where you can get help from other employees in certain parts of—maybe if you get hit with a particularly hard year in one area, you are not going to need maybe as many people doing that in other parts, so we can sort of shift people around and try to accommodate that.

Just that in itself and the ease with which the farmer can see that it has worked with this program I think will also help in the long run on the participatory side.

I hope you will keep that in mind, as you are dealing, you, Mr. Under Secretary, probably more so in encompassing a number of agencies, the ability to do some shifting there where we cannot be overstaffed but adequately staffed as this new program would be starting.

Thank you, Mr. Chairman.

Mr. JOHNSON. Mr. Minge.

Mr. MINGE. First, I would like to ask what leadtime do you need to set up this program for the 1995 crop year?

Mr. ACKERMAN. What we are looking at is we would need to have the bill signed by about the middle of the year to get this up and running for the 1995 crop year. Even that will be very tight and we will probably have to make some special arrangement for the fall planted crops, because for them, sign-up dates are as early as September or earlier. So we would probably have to make some special provision for them even under the best of circumstances.

Mr. MINGE. Would you have to have the appropriation in place too then by the middle of the summer?

Mr. ACKERMAN. If we know the appropriation is coming, generally appropriation bills are somewhat later in the year, but if we know the appropriation is coming, we should be able to go forward.

Mr. MINGE. I don't think anything is known until it is done. That is the impression of this place after 15 short months.

Is there, as a part of the proposal, the expectation that the Federal Crop Insurance Corporation will be using ASCS figures so that we will be working off of one set of data as opposed to two?

Mr. ACKERMAN. We would be working off of FCIC yield data rather than ASCS data. It is true that over time, as ASCS and FCIC are merged to become one single agency, that we will be getting better at that. But what we would be looking at, particularly on the yield data because that is really the most sensitive and most work intensive is FCIC data rather than ASCS data.



Mr. MINGE. I have heard many farmers talk about the moral risk of insurance and what they see is neighbors who have taken advantage of programs, including Federal crop insurance. Is there any active program that you have to identify either errors or fraud in connection with Federal crop insurance, including allowing people to report on activities that they see that are occurring in their community?

Mr. ACKERMAN. We have a very active compliance program and it is something that we are hoping to emphasize more as we go on. Obviously, to expand the program to this extent, we are going to have to police it very carefully. I believe we do have an 800 number that farmers can call to report complaints, and we can provide that to you.

Mr. MINGE. I am interested in the changes that you have alluded to with respect to the preventive planting and late planting. Would it be correct to say that the level of benefits under late planting would always be greater than the level of benefits for preventive planting?

Mr. ACKERMAN. I think that is right.

Mr. MINGE. I would like to emphasize the importance of this, especially based on your experience with the flooding last summer, where we had farmers who had large areas that they could not plant at all and then areas where, if they were very, very diligent and willing to take a risk, they could go in and plant and hope to get a crop. And as I understand it, many of those farmers felt that they were penalized if they went in late in the year and tried to do their very best to get a crop because they received less in the form of coverage and ultimately benefits than those farmers who were less aggressive and simply tried to maximize potential benefits. That is one aspect of this I would like to emphasize.

The second is that several people have told me that they have seen farmers in their township who were very diligent about cultivating or spraying or taking steps necessary to try to maximize their yields in 1993 and they, in fact, did have yields that maybe only resulted in a 60 percent crop loss.

They had neighbors who said, we are banking on a disaster program and they essentially did not practice any sound farming—adhere to any sound farming techniques, and again, I know we can't micromanage what every farmer does, but I trust that there is some sensitivity to this type of taking advantage of the system, if you will, in the administration of the program.

Mr. ACKERMAN. Yes, sir.

Mr. MINGE. I would like to next address the question of how we prevent this from becoming an entitlement program that in some years just runs away with the budget and adds to the deficit. Is there any plan to either establish a type of reinsurance pool or otherwise cover the catastrophic monumental loss that could occur if we have, again, the flood of the century or the flood of the millenium that we are facing?

Mr. ACKERMAN. This is a very interesting question we have looked over the past couple of months. If you have a year like 1993, even under the best planned system, there will be a large loss for the Government, and we have given some thought to the possibility of having FCIC, the Federal Government, try to find some ways to

cover our risk. This came up particularly when we were talking about replacement cost coverage, about whether we might be able to find an element of price risk, whether there is some way for us, the Government, to pass along that risk to the private futures or options market perhaps through a market intermediary. There have been some thoughts of perhaps taking our risk in toto, large chunks of it or definable parts of it and passing it on to a commercial reinsurer.

We are looking at some of those ideas. They are very new to the Government. Very few, if any, Government agencies currently do that. It would be a very interesting departure, but I think there is a lot of sense to it.

Mr. MINGE. Thank you. I see my time is up.

Mr. JOHNSON. Mr. Pomeroy.

Mr. POMEROY. Mr. Ackerman, I have some questions about costs and the implementation of the program. The nominal sign-up fee for the catastrophic level is set at a level essentially to cover processing costs. Have you done an internal analysis as to whether the USDA can ultimately deliver these policies for the costs or charges assessed to the farmers?

Mr. ACKERMAN. We are having a number of discussions with ASCS to talk through this very point, and those talks are still underway. We feel that with the \$50 or \$100 processing fee, we can work with ASCS or our partners in the Farm Service Agency to deliver this program. They will have to absorb, obviously, some cost, just as in the past they have had to absorb the cost of implementing ad hoc disaster bills. It will in fact put some strain on the organization in order to get this done, but we think it is a manageable one and we are starting to work through it with ASCS.

Mr. POMEROY. I ask that you very carefully assess the relationship between actual cost to the agency and money received as an assessment from the farmer, because as you have acknowledged, the dollar amount was not fixed based on an analysis of cost.

In the event you are dramatically short, and I think you might be, there will be a fairly substantial dislocation of ASCS resources and that raises a host of policy concerns that this committee would want to discuss.

Mr. ACKERMAN. If I may, one of the major variables in this calculation is to what extent the private sector will step in and aggressively market this product. We hope that they will and we hope that in most parts of the country, farmers given a choice and given a reasonable marketing effort by the private sector, that the bulk of this business will in fact go to private agents.

Mr. POMEROY. That is my next point. The public-private partnership foundation for the program is one that I applaud and think, at its best, represents a model of how perhaps many programs could work. On the other hand, public-private partnerships only work where there is an opportunity for the private sector to realize some financial return competitive to what they might realize in other nonpartnership ventures.

Drawing upon my experience from my old days as an insurance regulator, I am not certain that present return to the private sector adequately compensates for risk. I am familiar with one company that lost last year fully one-third of their surplus. Virtually all of

the earnings that they accrued during the preceding years, nearly 10 years in Federal crop insurance program participation, got wiped out last year.

As you work toward your plan for the 1 to 1 actuarial goal, if increased risk is laid off on the private sector while return to the private sector is screwed down a little tighter, you will not have interest in private sector participation. Where do you think you are in trying to strike that delicate balance at the present time?

Mr. ACKERMAN. I think this is a very, very important point and a very important issue that we are working with the private industry on. This year, as you note, the private sector companies took a major loss—a major underwriting loss on that because of the catastrophe in the country. Our latest numbers show that the underwriting loss collectively of the 20-odd companies who provide crop insurance is in the range of \$82 million to \$83 million, which is a lot of money.

In addition to that, the commercial reinsurance industry, which provides support to a lot of the private companies, is very tight because there have been a number of major losses outside of agriculture, such as the earthquakes in California and other similar events. So generally the financial picture is very tight.

We are going to be going forward in the next few days with our proposed reinsurance contract to the industry which sets out the actual numbers, the actual rules for risk sharing and profit potential, and this is something that we are going to have to work with the industry on. We understand that we have to provide profit potential to the industry to keep them in the game.

Mr. MOOS. Mr. Chairman.

Mr. JOHNSON. Yes, Mr. Moss.

Mr. MOOS. I have got another commitment. Might I be excused at this point?

Mr. JOHNSON. Yes, you may. I think we are coming down the stretch. There may be a couple more questions, but certainly, Mr. Moos, and we do very much appreciate your willingness to attend this hearing and participate with us, and we look forward to working very, very closely with you as this complex issue is resolved. Thank you.

Mr. MOOS. I thank you and the members very much for this opportunity. We think we have a good workable product here and would look forward to working with the subcommittee and perfecting it. So thank you very much, and I am sorry I do have to run.

Mr. JOHNSON. Thank you. Ken, not yet.

Following up just briefly on the APH issue we were talking about previously, if we were able to pass this legislation and would adequately fund it and do it on the time line you recommend, would catastrophic adjustment be available for the 1995 crop Winter wheat planted in 1994, or is that not realistic?

Mr. ACKERMAN. No, I think that is realistic. We are looking to have a price for the 1995 crop year, yes.

Mr. JOHNSON. I yield my time to my colleagues here. Mr. Minge.

Mr. MINGE. I have an endless supply of questions here. It is just a question of when to stop. I would like to ask one other question and, that is, do we have a system built into Federal crop insurance to address the dilemma of people attempting to farm areas that



simply cannot be successfully farmed due to various weather related or other risks, and if we do, how do we avoid their being left out of the Federal crop insurance program and as a result, beginning to undermine our efforts to put disaster assistance to rest?

Mr. ACKERMAN. The answer is yes and it requires quite a lot of careful balancing. There are a number of elements in the program that reflect the high-risk farmland. For instance, if a certain county is a very risky county and that shows up in annual loss ratios, then that will affect the rates charged in that county. Also, by basing the program more on actual individual yields, that would reflect a farmer's individual experience if they farm very high-risk land. Finally we have the nonstandard classification system to identify farmers with very disproportionate loss records.

Yes, you are right, that the way our program is currently structured there is a danger of pricing people out of the market and creating a group of uncovered farmers who would be needing disaster aid. My hope is that if we put the reform package into place, the catastrophic coverage could operate as something of a safety net, that if you have farmers who are bumped out of the system by the nonstandard classification system, that they would be brought back in under catastrophic coverage. Their insured yields would be affected but at least they would have catastrophic coverage.

Mr. MINGE. Would the catastrophic level of coverage, in effect, enable them to continue farming land that should not be farmed? I will just say I have heard examples of people who don't expect to get really much of a crop at all but they farm Federal crop insurance.

Mr. ACKERMAN. They would have coverage but it would be very low coverage. They would not be farming for very much, and the legislation on top of that gives us the ability to limit coverage in certain areas and precisely in response to that.

Mr. MINGE. Thank you.

Mr. JOHNSON. Mr. Pomeroy.

Mr. POMEROY. I also could go on all day but we will have an opportunity soon to discuss these at greater length.

The only other question I would have involves the private sector administration of this catastrophic layer at the price of that coverage, the nominal price of the coverage. Is it anticipated, for example, in adjustment that a privately written catastrophic layer will be adjusted privately?

Mr. ACKERMAN. Yes. There would be a separate payment for a loss adjustment separate from the \$50.

Mr. POMEROY. So none of the \$50 relates to adjustment.

Mr. ACKERMAN. Correct.

Mr. POMEROY. That is covered elsewhere. I thought that this would work under a very simple bare bones type of coverage that might be provided and the actual APH formula proposed, I believe, requires a level of administrative detail that is really tough to accomplish under that price. Do you have an evaluation of that?

Mr. ACKERMAN. We understand that in many cases the APH calculations can be complex. But we feel that it is necessary for the program, that it is important for the program, and with APH, it is more fair for the farmer. They are getting a yield that more accurately reflects their rates, and it is also more actuarially sound be-



cause every study that has been conducted on this shows that farmers with no records tend to have a disproportionate share of losses and that is why we have drawn a fairly strong line on this wanting to go with APH yields. We think that it can be done.

There is a lot of experience that has been developed in the last few years, in the private sector particularly, where APH yields have been calculated on a regular basis. There are computer software systems that exist to help salesmen do it. These software systems would be available to the USDA people as well as to the private sector. We would certainly need to work with both sides in developing clearer rules if need be on what records would be adequate, so we might have to work with the system a little bit to make it go, but I think it is an important element to this.

Mr. POMEROY. The final question I have, Mr. Chairman, involves whether there has been any focus group analysis? I know there hasn't been any market analysis on what future purchasing trends might be with this program. I just wonder whether there will be a level presently purchasing at the 65 percent level and paying a premium that will opt for the virtually free catastrophic level and self-insure their exposure after that.

Mr. ACKERMAN. That particular question is a very hard one to predict and we think we have built in a number of incentives for farmers to buy up, and I think that particularly after this program is in place for a year or two and there is, in fact, a disastrous event in some part of the country and in fact Congress does not pass a disaster bill, that will probably be the single event that prompts a large number of farmers to buy up.

Mr. POMEROY. Assuming there are some farmers left?

Mr. ACKERMAN. Yes.

Mr. JOHNSON. Does the gentleman from Minnesota have any concluding questions at this point?

Mr. MINGE. With an eye toward the clock, I will defer any concluding comments.

Mr. JOHNSON. I want to thank you, Mr. Ackerman, as well as Mr. Moos, for being with us today. I find your responses very knowledgeable and forthcoming. This is an enormously complex area but one that will not wait, and we appreciate your leadership in this area.

We are, again, going to be quite aggressive in trying to push this legislation on the House side. There are some unknowns at this point in terms of funding and other factors, but nonetheless, I think we want to push this along quickly, so thank you for joining us today. We will all be working very closely with you, both formally and informally, as this year goes on. Thank you.

With that, the subcommittee is adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement for Under Secretary Gene Moos  
Before the Subcommittee on Environment,  
Credit and Rural Development  
House Committee on Agriculture  
March 25, 1994

Good morning Chairman Johnson and Members of the Subcommittee. Thank you very much for holding this hearing today to review the Administration's proposed bill to reform crop insurance. During last year's flood, President Clinton and Secretary Espy committed themselves to reforming the way in which the government provides producers economic assistance for crop losses due to natural disasters. As a result of our efforts, on March 2nd, Secretary Espy submitted to Congress a proposed bill, the "Federal Crop Insurance Reform Act of 1994." In formulating this proposal, we met with many of FCIC's constituent groups, private insurers, Congress, and our most important one, farmers.

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The Manager of the Federal Crop Insurance Corporation, Mr. Kenneth D. Ackerman, is here today to give you all of the details of this proposed legislation. However, before I turn the microphone over to him, I would like to take a moment to emphasize the importance of this bill. We clearly have a window of opportunity to reform the process of providing disaster assistance and we should take advantage of it before we get embroiled in the 1995 farm bill debate or faced with another natural disaster. The logic behind this bill is sound. Right now we have two very expensive programs delivering crop disaster relief. This duplication is not only upsetting to taxpayers, it is unnecessary and costly. This bill merges the crop insurance and crop disaster programs, into one program which will be delivered by the FCIC. Mr. Ackerman will explain why we chose this course, but I would like to say that our emphasis on this form of risk protection stems from the President's belief that people need to take on a certain measure of responsibility for their own futures. Crop insurance enables producers to do just that, to insure their futures.

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In closing, I ask the Subcommittee and the Committee to deal with this issue swiftly so USDA can implement a new program by 1995 to take care of future disasters in an efficient, timely way. The Secretary and I thank you again for your time today and look forward to working with you on this proposed legislation.



STATEMENT OF  
EUGENE MOOS, UNDER SECRETARY,  
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS,  
UNITED STATES DEPARTMENT OF AGRICULTURE

and

KENNETH D. ACKERMAN  
MANAGER, FEDERAL CROP INSURANCE CORPORATION,  
UNITED STATES DEPARTMENT OF AGRICULTURE  
BEFORE THE  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT, AND RURAL DEVELOPMENT  
COMMITTEE ON AGRICULTURE  
UNITED STATES HOUSE OF REPRESENTATIVES  
March 25, 1994

We want to thank the Subcommittee for holding this hearing today on the Administration's proposed "Federal Crop Insurance Reform Act of 1994," which was first submitted to Congress by Secretary Espy three weeks ago. We, and particularly Secretary Espy, greatly appreciate the Subcommittee's attention to the goal of reforming Federal crop insurance and very much look forward to working with all Committee members in developing a plan that will work well both for American farmers and taxpayers.

As much as any program in Washington, Federal crop insurance has long needed change. The discontent with this program from farmers, taxpayers, insurance industry leaders, Congress, the President, and others, has focused on long-standing, well-documented problems:

- o Despite an annual crop insurance price-tag approaching \$900 million, Washington has had to step in with crop disaster relief payments to farmers in eight of the last eight years. Standing alone, crop insurance, with a nationwide participation rate of just 33 percent in 1993, simply has not provided an adequate safety net. These off-budget crop disaster programs have cost taxpayers an average \$1 billion per year over the last decade, and more than \$1.5 billion per year over the last six years. This conflict between crop insurance and crop disaster programs must end.

- o Crop insurance has chronically lost money. Since 1981, the Federal Crop Insurance Corporation's (FCIC) insurance operations have produced an overall "loss ratio" of about 1.47. That means that we have paid out about \$1.47 in claims for every \$1.00 collected in premiums and premium subsidies, not counting overhead costs. Any private business posting these numbers would have gone bankrupt years ago. Taxpayers are tired of picking up the tab. The program must be made more financially sound.
- o Farmers continue to complain that Federal crop insurance does not meet their needs. The program must be made more farmer-friendly with new products, more flexibility, and a good attitude toward listening to customers.

Last summer's disastrous Midwest flood and Southeast drought brought the problems of crop insurance into sharp focus for Americans across the country. Secretary Espy and President Clinton travelled extensively in the flooded areas and spoke directly with farmers about their problems and experiences in dealing with Federal programs designed to assist them. Again and again, they heard concerns. These problems ranged from lack of coverage for prevented planting, to inflexible price elections, to uncertainty about the availability and timeliness of help. On March 2, just four weeks ago, Secretary Espy announced a massive reform program that grew directly from last summer's experience.

In essence, we are recommending a two-pronged program to fix Federal crop insurance: (1) reform from the inside out -- administrative steps to make the program more financially sound and farmer-friendly, and (2) reform from the outside in -- the new "Federal Crop Insurance Reform Act of 1994."

### **Federal Crop Insurance Reform Act of 1994**

The Federal Crop Insurance Reform Act of 1994 is the centerpiece of our reform plan. This bill responds specifically to the central finding of our review following last summer's experience. Ad hoc crop disaster bills over the years have been an effective act of government for people in crisis. These relief programs have helped millions of Americans, farmers and non-farmers alike, survive the most difficult periods in their lives. But the reliance on this ad hoc relief that has developed as a result of an under-used crop insurance system, has created a level of uncertainty that is bad both for farmers and taxpayers.

In fact, the repeated availability of ad hoc relief has been a disincentive for many farmers to participate in the Federally backed crop insurance program.

In a crisis, a farmer without crop insurance, who depends on disaster relief, has no way of knowing in advance what his or her protection will be. Farmers do not know whether a disaster bill will be approved or, if approved, what payment level the bill will provide. Even then, a farmer suffering loss must hope that other farmers across the state, and in ten or twenty other states, are experiencing similar losses in order to create the momentum for action. An examination of history reveals that victims of local disasters often get less than those of wider disasters, even though the individual farmers may suffer similar losses.

For example, victims of 1992's Hurricane Andrew in Florida, received aid at 50.04 percent proration while victims of this summer's Midwest flood received aid at 100 percent. Farmers with losses in states not involved in the large disasters found that congressional decisions affecting their livelihoods were being based upon factors totally disconnected from their circumstances.

What will happen if natural disaster strikes again next year? Farmers trying to plan their operations in a businesslike manner simply have no way to know.

Meanwhile, taxpayers are concerned that disaster aid is exempt from the budget discipline that controls spending in virtually every other area of government. At a time when deficit reduction is a paramount domestic priority, the price of these emergency programs continues to rise. The public rightly questions the point of having two expensive programs trying to address a single recurring problem -- crop disaster aid. Americans are generous in a crisis, but their patience has limits.

The Federal Crop Insurance Reform Act of 1994 resolves this situation by combining crop insurance and disaster aid into a single, unified, on-budget program. This requires two steps. First, the legislation expands the crop insurance program to protect farmers, financially, when natural disasters ruin or damage their crops. Second, it creates a legal barrier against future ad hoc crop disaster programs.

We view this proposal as being both a vital budget reform as well as a vital agricultural reform.

The legislation is built upon several key pillars:

- 1: **Catastrophic crop insurance coverage:** The Federal crop insurance program is supplemented with a new catastrophic coverage level available to farmers of insured crops for a nominal processing fee of \$50 per crop per county, up to \$100 per farmer per county. The processing fee may be waived for limited resource farmers. The idea is to make this coverage very economical and accessible.

Policies will cover prevented planting as well as actual crop losses, and will be based on actual individual farm yields.

This catastrophic plan will protect against yield losses greater than 50 percent at a payment rate of 60 percent of the expected market price -- a level comparable to disaster relief programs in recent years. The difference is this: catastrophic coverage is an individual insurance policy, not an ad hoc relief payment. It is a contract that a farmer can take to the bank as collateral on a loan. Even if no other farmer in the country suffers a loss, the farmer has the security of knowing that he or she is covered.

Under this approach, in a future agricultural crisis, farmers will know in advance the extent of their protection and taxpayers will know in advance the limits of their exposure.

- 2: **Buy-Up coverage:** Most producers desire higher levels of coverage than the catastrophic plan offers to protect their farm businesses. The legislation provides targeted subsidies for these higher insurance coverage levels. The out-of-pocket cost for coverage at the 65 or 75 percent yield levels will fall by about 10 percent. In addition, the bill gives FCIC the authority to offer policies covering 85 percent of yield. The more farmers buy higher levels of coverage, the more fiscally sound the system will be.
- 3: **Linkage to farm programs:** To ensure the widest participation, crop insurance coverage at the catastrophic level or above is linked to participation in Federal commodity price support, production adjustment, and conservation programs and Farmers Home Administration loans. We expect that this step will result in crop insurance participation rising from 33 percent to about 80 percent of insurable acres.

The purpose of linkage is to guarantee that, if disaster strikes, the bulk of U.S. farmers will be protected. We understand that farmers, like other Americans, do not like being told what to do, this is human nature. But the linkage proposal



is fair and not onerous given the nominal cost of catastrophic coverage to farmers. Farmers also gain security for the future.

- 4: **Delivery:** Farmers may choose to obtain the catastrophic coverage either through a private reinsured company or through a USDA county office. Higher insurance coverages remain available only from private insurers. Our goal is to provide the most convenient and efficient means of quickly getting catastrophic crop insurance coverage to the largest number of farmers. The private sector's insurance sales force will have a full opportunity to compete for the catastrophic market.
- 5: **Industry competition:** The legislation restructures premium rates to reflect both direct premium subsidies and the expense reimbursement allowance to reinsured companies. This provides a more realistic picture of the cost of the program both to farmers and taxpayers. More-efficient companies will be allowed to pass along lowered overhead costs in reduced rates charged to farmers, creating a more competitive market environment.
- 6: **Uninsurable crops:** A standing disaster program is created for crops not covered by crop insurance, with payments triggered by area-wide loss levels and protection levels similar to those under the catastrophic insurance plan. This way, no one is left out in the cold, the wet, or the dry.
- 7: **Repeal of standing disaster assistance authority:** Current authorities for standing crop disaster relief are repealed. In the future, the expanded crop insurance program will replace disaster bills as the Federal response to emergencies involving widespread crop loss.

As added protection, the legislation exempts appropriations for agricultural crop disaster assistance from designation as an "emergency" for purposes of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. This action essentially places future crop disaster bills on budget. They must be paid by off-setting spending cuts, rather than being allowed to proceed as "emergency" spending. Therefore, the primary vehicle for providing crop disaster assistance will be the Federal crop insurance program, as its legislation originally intended.

We project that the new program created by the Federal Crop Insurance Reform Act of 1994 will cost about \$8.1 billion for fiscal years 1995 through 1999. This represents a five-year savings of some \$750 million compared to the projected cost of

the current Federal crop insurance program plus the average annual cost of ad hoc crop loss disaster relief programs over the past decade. Essentially, this plan takes the \$1 billion that Washington now spends each year on off-budget crop disaster programs and re-channels it into a more-disciplined, on-budget insurance plan.

We would like to implement this new program in crop year 1995 so that its benefits of certainty can be felt by farmers and taxpayers. This timetable is ambitious, and will require Congress to do its part. Combining Federal crop insurance and disaster aid will be a complicated process involving training of personnel, rewriting of rules, and educating customers. We must do it right.

### Achieving Financial Soundness

Resolving the conflict between Federal crop insurance and disaster programs is not enough. We must, at the same time, also make Federal crop insurance more financially sound. The old way of doing business, where Federal crop insurance lost excessive amounts of taxpayer money year after year, is simply no longer acceptable. The 1993 Omnibus Reconciliation Act (OBRA) requires FCIC to achieve an overall projected loss ratio of 1.1 by the year beginning October 1995. The 1994 Agricultural Appropriations Act mandated additional cost-saving reforms. We are committed to, at least, meeting this loss ratio goal and obtaining actuarial soundness. American taxpayers will accept nothing less.

As part of the March 2 reform package, Secretary Espy released the FCIC's "Blueprint for Financial Soundness" mandated by OBRA 1993. This document outlines the specific steps that FCIC will take to improve the program's financial soundness and the savings we expect to result. Those steps include:

- A modified-APH (actual production history) program to better tie individual farmer's insurance coverage to their individual yield history. We will modify this program to permit a catastrophic yield adjustment beginning in crop year 1995;
- An expanded non-standard classification system (NCS) to identify those farmers with unusually high loss histories and adjust their rates to more sound levels;
- Greater emphasis on program compliance to prevent over payments based on errors and abuses; and

-- Greater risk-sharing with private insurance companies.

Finally, we will work to make Federal crop insurance more farmer-friendly by introducing new products, more flexibility, and more responsiveness to complaints and ideas from farmers, agents, companies, and all participants in this program. Just recently, FCIC for the first time used the authority granted under the Food, Agriculture, Trade and Conservation Act of 1990 to back financially an innovative new insurance product developed by the private sector. This process of partnership will continue.

The challenge of reforming Federal crop insurance is complex and difficult, but we believe our plan is a responsible one and will be responsive to the needs of American farmers and taxpayers. We hope that Congress will act expeditiously on the legislation so that we may implement the new program for the 1995 crop year.

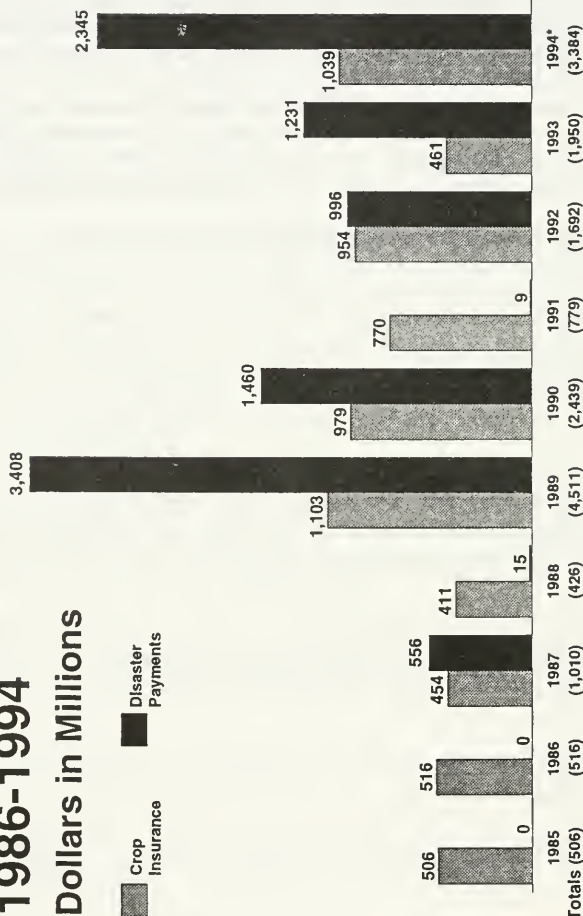
We will be pleased to answer any questions you may have.

(Attachments follow:)

# Federal Outlays for Crop Emergency Aid 1986-1994

Dollars in Millions

Crop Insurance  
Disaster Payments



Totals (506) (516) (1,010) (426) (4,511) (2,439) (779) (1,692) (1,950) (3,384)

Crop Insurance, 6 Year Average (1989-94) 884-10 Year Average (1985-94) 719  
Disaster Payments, 6 Year Average (1989-94) 1,575-10 Year Average (1985-94) 1,002

\*Estimate



# Crop Emergency Aid Projected Taxpayer Savings

Dollars in Millions

	Total 1995-99
Current Divided Approach:	
Crop Insurance:	3,900
<i>Ad Hoc</i> Disaster Relief:	<u>5,000</u>
Total Current	8,900
New Combined Program:	8,100
Taxpayer Savings:	<u>\$750*</u>

Source: Budget of the United States Government Fiscal Year 1995

\*Minimum Based on Rounding Off in Budget

## UNITED STATES CROP VALUE SUMMARY

## INSURED CROPS

NATIONAL VALUE OF ALL CROPS \$92,385,311,215

CROP	REPORTED ACRES	DOLLAR VALUE	PERCENT OF TOTAL VALUE
Corn, Grain	66,950,480	18,008,691,703	19.493
Soybeans	56,498,545	11,213,520,994	12.138
Wheat	69,353,948	7,296,722,323	7.898
Cotton, Upland	11,501,930	4,884,989,171	5.288
Tobacco	732,740	2,829,953,119	3.063
Potatoes	1,363,816	2,396,315,957	2.594
Nursery, Container		2,375,462,434	2.571
Corn, Silage	6,124,202	1,954,333,349	2.115
Oranges	770,214	1,515,565,984	1.640
Apples	352,114	1,408,875,579	1.525
Peanuts	1,807,325	1,256,883,370	1.360
Sorghum, Grain	9,086,031	1,203,379,180	1.303
Sugar Beets	1,375,468	1,125,379,300	1.218
Rice	2,812,429	1,040,085,810	1.126
Tomatoes - Fresh	137,578	924,639,769	1.001
Barley	7,505,000	906,414,000	0.981
Grapes - Processed	408,090	885,062,003	0.958
Sugarcane	723,840	813,706,190	0.881
Raisins	266,737	677,942,810	0.734
Beans, Dry	2,099,403	660,075,798	0.714
Almonds	413,202	639,048,900	0.692
Tomatoes - Processed	353,911	617,956,960	0.669
Grapes, Table	90,343	494,035,398	0.535
Onions	146,180	493,421,041	0.534
Peaches	117,823	482,137,001	0.522
Oats	6,015,517	412,485,275	0.446
Grapefruit	168,928	354,979,543	0.384
Lemons	59,816	347,117,610	0.376
Pears	50,031	281,428,961	0.305
Plums - Fresh	45,199	265,029,699	0.287
Sweet Corn - Fresh	191,672	256,059,591	0.277
Walnuts, English	184,837	254,412,036	0.275
Sunflowers	1,854,495	247,439,110	0.268
Peppers	53,513	225,972,741	0.245

## UNITED STATES CROP VALUE SUMMARY

## INSURED CROPS

NATIONAL VALUE OF ALL CROPS \$92,385,311,215

CROP	REPORTED ACRES	DOLLAR VALUE	PERCENT OF TOTAL VALUE
Sweet Corn - Processed	476,613	213,509,890	0.231
Nectarines	25,761	158,609,100	0.172
Cranberries	27,801	152,828,500	0.165
Beans, Snap - Processed	214,640	139,856,244	0.151
Prunes	79,707	133,203,850	0.144
Peas, Green	293,750	109,804,780	0.119
Tangerines	18,922	69,225,312	0.075
Apricots	20,249	48,509,599	0.053
Peas, Dry	274,500	43,363,600	0.047
Macadamia Nuts	18,700	41,720,000	0.045
Safflower	159,073	37,924,863	0.041
Flax	253,002	20,858,600	0.023
Tangelos	10,419	16,897,699	0.018
Figs	13,071	16,351,600	0.018
Beans, Lima - Processed	21,650	9,432,000	0.010
Temples	9,199	7,641,999	0.008
TOTAL		69,969,260,345	75.736

"Nursery, Container" crops are container grown landscape plants.

Values are not available for the following insured crops: Popcorn, Hybrid Seed Corn, Hybrid Seed Sorghum.

Acreage data is incomplete for apples, peaches, pears and plums.

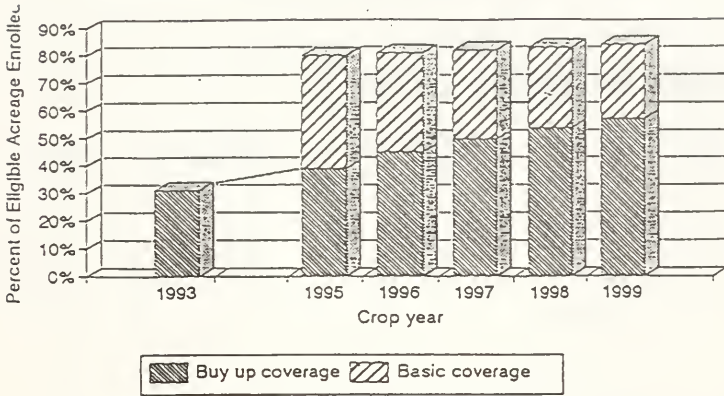
# CROP EXPANSION FEASIBILITY STUDY LIST

*Feasibility studies are currently underway on the following crops in anticipation of developing new crop programs:*

AVOCADOS	LETTUCE-HEAD
ASPARAGUS	LETTUCE-LEAF
BLUEBERRIES	MUSHROOMS
BROCCOLI	NURSERY CROPS
CANOLA	PECANS
CANTALOUPE	PEPPERMINT
CARROTS	PINEAPPLE
CAULIFLOWER	PISTACHIOS
CELERY	SEED-FORAGE
CHERRIES-SWEET	SEED-LAWN
HAY-ALL	STRAWBERRIES
HAY-HAYLAGE	SWEET POTATOES
HAY-OTHER	WATERMELON



## Participation Under the Reform Proposal (with linkage)



- Under the reform proposal, producers who participate in price support and income support programs or who have loans under any program of the Farmers Home Administration are required to obtain at least the catastrophic level of insurance for *all crops of economic significance* farmed in the county in which that producer has an interest. The linkage with commodity programs will ensure that participation in the crop insurance program is 80 percent of eligible acreage in 1995.
- Requiring producers to obtain catastrophic crop insurance for *program crops only* would potentially lower the crop insurance participation rate as significant crops (e.g., soybeans) would be largely unaffected. Participation rates would likely be only as high as 65-70 percent of eligible acreage.
- If crop insurance is not linked to commodity program eligibility it is likely that crop insurance participation will be only 55-60 percent of eligible acreage, at least in the early years of program operation. Lower participation rates could encourage ad hoc disaster assistance which would further undermine participation.

TARGETED SUBSIDIES FOR BUY-UPS  
COMPARISON OF FARMER'S OUT-OF-POCKET EXPENSE

WITH TARGETED SUBSIDY FOR BUY-UPS:

Coverage Level	Current Cost	Cost Under Reform Act	Difference
65% of yield	\$296	\$246	-17 percent
75% of yield	\$623	\$574	- 8 percent

WITHOUT TARGETED SUBSIDY FOR BUY-UPS:

Coverage Level	Current Cost	Cost Under Reform Act Without Buy-up Subsidy	Difference
65% of yield	\$296	\$282	- 5 percent
75% of yield	\$623	\$609	- 2 percent

Assumptions:

100 acres planted/ 100 bushel yield/ \$1.00 price election  
 10 percent premium rate for 75 percent coverage

Stated costs are the farmer's out-of-pocket cost for the coverage after deducting the subsidy.

FEDERAL CROP INSURANCE CORPORATION  
 PREMIUM/INDEMNITIES/LOSS RATIOS  
 1981 - 1993 (Crop Year Data)  
 (dollars in thousands)

YEAR	PREMIUM	INDEMNITIES	LOSS RATIO
1981	\$379,169	\$408,101	1.08
1982	398,671	528,157	1.32
1983	291,353	587,691	2.02
1984	435,588	639,969	1.47
1985	439,733	684,364	1.56
1986	381,753	616,993	1.62
1987	366,640	369,163	1.01
1988	437,854	1,053,775	2.41
1989	820,763	1,215,763	1.48
1990	838,040	1,028,581	1.23
1991	737,146	953,257	1.29
1992	758,768	920,901	1.21
1993 (est.)	784,652	1,412,374	1.80
TOTAL 1981 - 1993	\$7,069,330	\$10,419,089	1.47
AVERAGE 1981-1993	\$543,841	\$801,468	1.47

1992 Figures - Actuals from Oct. 27, 1993 Summary of Business  
 1993 Figures from Damage Report of Oct. 20, 1993.

## CORN - PARTICIPANT

## Comparison between Disaster Assistance and MPCI proposed Catastrophic Coverage

\*\*DOES NOT INCLUDE DEFICIENCY PAYMENTS RECEIVED\*\*

**Assumptions:**

APH yield = 120 bushels  
 ASCS Yield = 100 bushels  
 MPCI price = \$2.30/bu  
 ASCS target price = \$2.75/bu  
 ASCS deficiency pymt = \$0.45/bu  
 Acres planted = 90

	<b>Farm</b>	<b>Per Acre</b>
Disaster (.5004 pro-rate)	\$3,952.00	\$43.91
Disaster (No pro-rate)	\$7,898.00	\$87.76
Catastrophic Protection	\$7,776.00	\$86.40



## FEDERAL CROP INSURANCE CORPORATION

## CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

## CORN NON-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	\$ PER ACRE		
100	80	40	86
90	67	34	69
80	54	27	52
70	41	20	35
60	27	13	17
50	18	9	0
40	0	0	0

## ASSUMPTIONS:

COUNTY AVERAGE YIELD  
DISASTER ASSIST. PAYMENT  
APH YIELD (REFORM PLAN)  
PRICE ELECTION

120 BUSHELS PER ACRE  
\$1.12 PER BUSHEL  
120 BUSHELS PER ACRE  
\$2.40 PER BUSHEL

## FEDERAL CROP INSURANCE CORPORATION

## CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

## SOYBEANS

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	\$ PER ACRE		
100	100	53	80
90	88	44	64
80	71	36	48
70	53	27	32
60	35	18	16
50	18	9	0
40	0	0	0

## ASSUMPTIONS:

COUNTY AVERAGE YIELD  
DISASTER ASSIST. PAYMENT  
APH YIELD (REFORM PLAN)  
PRICE ELECTION

45 BUSHEL PER ACRE  
\$3.91 PER BUSHEL  
45 BUSHEL PER ACRE  
\$5.90 PER BUSHEL

## COTTON

## Comparison between Disaster Assistance and MPCl proposed Catastrophic Coverage

## EXAMPLE #1

**Assumptions:**      APH yield = 406 pounds  
                               ASCS Yield = 406 pounds  
                               MPCI price = \$0.53/lb  
                               ASCS target price = \$0.729/lb  
                               ASCS deficiency pymt = \$0.186/lb  
                               Acres planted = 92.5

	<b>Farm</b>	<b>Per Acre</b>
Disaster (.5004 pro-rate)	\$3,813.00	\$41.22
Catastrophic Protection	\$5,971.25	\$64.55
Disaster (No pro-rate)	\$7,620.00	\$82.38

## EXAMPLE #2

**Assumptions:**      APH yield = 383 pounds  
                               ASCS Yield = 406 pounds  
                               MPCI price = \$0.53/lb  
                               ASCS target price = \$0.729/lb  
                               ASCS deficiency pymt = \$0.186/lb  
                               Acres planted = 92.5

	<b>Farm</b>	<b>Per Acre</b>
Disaster (.5004 pro-rate)	\$3,813.00	\$41.22
Catastrophic Protection	\$5,633.00	\$60.90
Disaster (No pro-rate)	\$7,620.00	\$82.38

# COMPARISON BETWEEN CATASTROPHIC RISK PROTECTION AND DISASTER ASSISTANCE

## WHEAT - PARTICIPANT

Bushels produced per acre	Catastrophic Risk Protection	With .5004 Pro-rate	With No Pro-rate
0	\$32.18	\$19.44	\$38.86
5	\$22.43	\$15.07	\$30.11
10	\$12.68	\$10.69	\$21.36
15	\$2.93	\$6.31	\$12.61
20		\$1.93	\$3.86
25			
30			

## WHEAT - NONPARTICIPANT

Bushels produced per acre	Catastrophic Risk Protection	With .5004 Pro-rate	With No Pro-rate
0	\$32.18	\$16.61	\$33.20
5	\$22.43	\$12.42	\$24.82
10	\$12.68	\$8.22	\$16.43
15	\$2.93	\$4.03	\$8.05
20			
25			
30			

### ASSUMPTIONS:

33 Bushel/Acre ASCS yield and APH yield

MPCI Market price of \$3.25

Target price of \$4.00

Loan price of \$2.58

Flex acres calculated at 65% of target



### Major Points of the Blueprint for Financial Soundness

The Blueprint for Financial Soundness is a structured, comprehensive plan to achieve a long-term projected loss ratio of 1.1 by October 1995, as directed by the Omnibus Budget Reconciliation Act (OBRA) of 1993. FCIC is committed to achieving this goal because it is good public policy. A financially sound program is essential to maintaining public confidence in crop insurance. Sound management to achieve the goal will promote the long-term stability of the program and help maintain the financial stability of American Agriculture. The 1.1 loss-ratio goal recognizes that crop insurance differs from commercial insurance because it also serves social goals, not solely the business objective of maximizing profit.

The major initiatives outlined in the Blueprint are to:

- A. Develop More Accurate Insurance Yields
- B. Develop a Catastrophic Yield Adjustment
- C. Implement the Group Risk Plan (GRP)
- D. Implement a Data Base of Taxpayer Identification Numbers
- E. Expand the Non-standard Classification System (NCS)
- F. Institute Premium Rate Adjustments
- G. Improve Underwriting of Crop Insurance Contracts
- H. Emphasize Program Compliance
- I. Assure that Adequate Risk is Borne by the Commercial Insurance Industry
- J. Improve Loss Adjustment
- K. Improve Marketing
- L. Expand Participation by Introducing New Products
- M. Improve Accuracy of Other Program Variables: Unit division, Program dates, Staged guarantees, De minimus yields, Suspensions and debarment, Price elections.

An in-depth discussion of each of these points, is contained in the Blueprint for Financial Soundness (available from USDA/FCIC).

## BLUEPRINT FOR FINANCIAL SOUNDNESS

### SCOPE AND PURPOSE

The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) contains provisions concerning the Federal crop insurance program. These provisions direct the Federal Crop Insurance Corporation (FCIC) to take steps necessary to improve actuarial soundness of the Federal crop insurance program and to achieve, by the fiscal year beginning October 1, 1995, a projected overall loss ratio not to exceed 1.10 (110 percent) (section 1501 (a)).

Projected loss ratio (dollar amount of losses paid as a percent of the total premiums collected) is intended to be a performance standard, not an absolute ceiling for the operations of any particular crop year. Congress recognizes that adverse weather conditions (such as extreme drought or flood) will influence the financial results of each year's operations; however, when good and poor years are averaged over a long period of time (such as 50 to 100 years), the expectation must be that the program will operate with an average loss ratio of 1.10 or less. A period of time at least this long is needed to observe a range of production conditions that are likely to be encountered by farmers. Short time periods, such as 5 to 10 years, may encompass several favorable or unfavorable years, the frequency of which is atypical of the longer term. This is a primary reason that the risks covered by the Federal crop insurance program cannot be financed in a commercial insurance environment.

OBRA 93 directed FCIC to take the following actions to achieve this required improvement in the loss ratio:

- Institute rules for producers to demonstrate actual production histories in establishing yields for Federal crop insurance coverage that better reflect the associated actuarial risks.
- Establish in appropriate counties an optional "area yield" or "group risk" plan that allows producers to qualify for an indemnity if a loss occurs in a specified area in which the producer's farm is located.
- Create a nationwide database to track producer participation using social security account and employer identification numbers. Such a tracking system would facilitate better production documentation, high-risk producer identification, and assessment of insurance providers' performance.
- Take other measures authorized by law to improve the actuarial soundness of the Federal crop insurance program while maintaining fair and effective coverage for producers.

FCIC is committed to achieving these actions because it is good public policy. A financially sound program is essential to maintaining public confidence in crop insurance. Sound management to achieve these actions will promote long-term stability of the program and

facilitate the overall economic stability of the United States agricultural sector. Crop insurance differs from commercial insurance because it serves social goals, not solely the business objective of maximizing profit. A stable crop insurance system never developed in the private sector without government support because of the unique and widespread risks inherent in farming.

Section 1501 (c) (2) further directed the Department to issue for public comment a comprehensive plan or "blueprint" that identifies, among other things:

- Steps FCIC intends to take to achieve a projected overall loss ratio of no greater than 1.10 on and after October 1, 1995.
- Additional steps if further action is required, based upon actual program experience or unforeseen external circumstances.
- Modifications to be considered if initial actions to improve actuarial soundness work better than anticipated.
- Projections, assumptions, and analyses which underlie the FCIC conclusions that the above actions will achieve the required loss ratio within the stated deadline while maintaining fairness and effective coverage to agricultural producers, and which thereby demonstrate FCIC's compliance with the performance standard identified in section 1501 (a).

This document proposes a draft comprehensive Blueprint for Financial Soundness, as required by OBRA 93 for discussion and public comment. The plan has been developed with the guidance of various persons involved with crop insurance (producers, insurers, agents, academics, and others). The plan will be modified periodically to incorporate resulting analyses of program performance and the recommendations of interested parties as required by OBRA 93.

Actions identified herein result from internal analysis by FCIC and information previously provided to FCIC by numerous interested parties. These include the Commission for the Improvement of Crop Insurance (a Congressionally established work group in 1989 and 1990), various crop insurance industry organizations, members of Congress, agricultural producers, crop insurance agents and insurance companies, the General Accounting Office, and others. Information was not solicited specifically for this draft but was compiled from previous recommendations. Not all of the specific recommendations made by any or all of these groups are included herein. This document establishes initiatives to achieve the above actions.

Estimates of the financial impact of an action, based on available data and professional judgment, are provided whenever possible. Readers should recognize that these estimates are fluid due to the nature of the data and the ever-changing program. In particular, since FCIC

does not have a single aggregate mathematical or statistical model that describes its programs, estimates of financial impact are based on partial analysis which considers the effect of one particular action in the absence of any other action or initiative. Also, the exact steps to be taken under this Blueprint depend in part upon the public comment and recommendations received before investing resources in detailed studies of potential impacts. Readers are encouraged to provide information, rationale, and where possible, estimates of costs or potential savings.

In some cases the financial impact of an action may not be quantified. This does not mean the action is not important or that it cannot contribute to achievement of the goal. For example, enhanced management reporting systems do not produce a measurable financial impact. However, such systems can enhance FCIC's ability to estimate the potential impacts of program changes and assure that ongoing management decisions recognize the impact of the decision on future actions.

This document is divided into four main sections, which describe: (1) crop insurance program to provide context and background; (2) actions FCIC proposes as part of this plan to achieve the target loss ratio; (3) additional actions that FCIC may take if those described in Section II are not effective or that cannot be implemented due to unforeseen circumstances; and (4) changes FCIC will consider once the projected loss ratio achieves the targeted level of 1.10.

## **I. BACKGROUND OF THE CROP INSURANCE PROGRAM**

### **A. Overview of Program Operations**

Crop insurance is delivered primarily by commercial insurance companies that have entered into a cooperative financial arrangement (the Standard Reinsurance Agreement [SRA]) with FCIC. Under this arrangement, the company agrees to deliver an FCIC designed and priced product to eligible buyers. The company is responsible for all aspects of customer service, and guarantees payment of the insured person's share of the premium to FCIC. In return, FCIC reimburses the company for administrative expenses and requires the company (on a state basis) to share in insurance experience whether favorable or unfavorable. FCIC also provides stop loss reinsurance that limits the maximum loss the company can sustain.

A small and decreasing portion of the total sales is managed directly by FCIC through sales and service contractors. These contractors agree to sell an FCIC designed and priced product and to perform certain servicing functions related to the sale (such as determining the average yields). FCIC reimburses the contractor for administrative expenses associated with selling and servicing the product; however, FCIC is directly responsible for premium collection, loss adjustment, and payment of losses. These latter functions are the responsibility of the reinsured company under that delivery



system. FCIC intends to eliminate direct sales after the 1994 crop year because this system now delivers less than 10 percent of the total business, and maintaining a nationwide capability for delivery at an acceptable cost is difficult.

The crop insurance plan for most crops indemnifies insured persons for losses in yield exceeding a predetermined threshold amount. To establish this threshold an average yield is determined based on the individual's production history. The first portion of the loss (deductible of the insurance), equal to 25, 35, 50, or 65 percent of the average yield, must be sustained by the insured person. These are the choices of deductibles now offered by FCIC, and typically are described by the maximum loss in yield covered by the insurance; e.g., 75 percent coverage, 65 percent, etc. The 50 and 75 percent coverage levels are required by the Act to be available to all persons. The level of coverage is chosen by the insured individual.

The insured person also must choose a price at which the yield is valued for the purposes of computing the amount of premium and any applicable amount of loss; this variable is called the price election. FCIC must offer a price election that is not less than the anticipated market price at time of harvest. This determination is made well before the possibility of loss is known during the crop year. Otherwise, insured persons would choose low price elections if no loss is sustained (minimizes premium payments) the highest possible price election if a loss occurs (maximizes indemnities).

FCIC establishes premium rates for the various coverage levels, yields, crop types and farming practices (e.g., irrigated) for each county. All planted acres of the crop are covered by the insurance policy unless for some reason the acreage is uninsurable. The premium owed by the insured person is determined by multiplying the average yield per acre by the coverage level, multiplied by the number of acres planted, the price election, and the premium rate. For example, if the average yield is 100 bushels per acre, the coverage level is 65 percent, planted acres are 50, the price election is \$2.25, and the premium rate is 5.2 percent, the premium is equal to  $100 \times 0.65 \times 50 \times \$2.25 \times 0.052$ , or \$380.25. The potential indemnity in the event of a total loss is \$7,312.50 (determined by multiplying the average yield, coverage level, planted acres, and price election).

A portion of the total premium is subsidized to encourage participation in the program. The subsidy is 30 percent of the total premium for coverage levels up to and including the 65 percent level. The subsidy for 75 percent level of coverage is equal to the dollar amount that would be paid at the 65 percent level of coverage. The premium subsidy for the above example would be \$114.08; thus, the insured person would pay \$266.17. The same \$114.08 subsidy would be paid if the insured person chose the 75 percent coverage level.

In the event of a loss, the amount of production that was harvested, or that was determined should have been harvested, is measured by the insurer. An indemnity payment is made if the determined production is less than the total guarantee for the acreage (yield multiplied by coverage level and acres planted). For example, if the insured person harvests 1,000 bushels from 25 acres and does not harvest a potential yield of 10 bushels per acre from the remaining 25 acres, the total of the production to count is 1,250 bushels (1,000 bushels harvested plus 25 acres multiplied by 10 bushels). This is subtracted from the total bushel guarantee for the acreage ( $100 \times 0.65 \times 50$ , or 3,250 bushels), resulting in a loss of 2,000 bushels. The indemnity is equal to the number of lost bushels multiplied by the price election. For this example, the indemnity would be 2,000 bushels  $\times$  \$2.25, or \$4,500.

Crop insurance does not guarantee revenue. As the above example illustrates, it provides an insurance indemnity only if production is less than the established guarantee. No protection is provided if the market price is less than the price election.

## B. Legislative Background and Issues

Federal crop insurance was established as a pilot program in the 1930's. Prior to 1980, crop insurance was available only on major crops in major producing areas. The coverage level often was limited to 60 percent or less of a long-term average yield for an area. Congress amended the Act in 1980 to expand the scope and coverage of the program with the intent that it be the sole means of providing public disaster assistance to U.S. farmers. Participation in the program increased after the 1980 amendments, but remains below levels deemed necessary to be regarded as the principal vehicle for disaster assistance. Insured acreage peaked at about 40-45 percent of the total acreage planted to insurable crops in 1988-89, but more commonly has been in the 30-35 percent range. Losses also increased with the expansion of the program. The loss ratio has exceeded the break-even amount of 1.00 in every year since 1980. Cumulative losses for the years 1980-1992 were approximately \$2.9 billion, with a cumulative loss ratio of about 1.45 for the 13 years.

Program participation is an issue influencing the Federal crop insurance program. Full participation (i.e., 100 percent of eligible acres insured) is the measure of program success that is accepted (at least implicitly) by some persons. This measure may not be the most appropriate. A rational decision to buy insurance of any kind must be based on the magnitude of the financial difficulties that accompany a loss. For example, buying collision coverage on a 15-year old automobile makes little financial sense. Similarly, buying insurance on a crop that contributes only a small portion of the expected income of the insured person may not make financial sense. Full participation in the crop insurance program may not represent an efficient use of the taxpayer's resources. However, participation must be high enough to minimize or

eliminate perceived needs to legislate disaster assistance funded under dire emergency provisions of the Budget Enforcement Act. The level of participation in the crop insurance program that maximizes returns to the public is not known, and is an area needing further definition.

Many losses paid in the 1980's and early 1990's were due to widespread disasters, the adverse financial effects of which Congress intended to mitigate under the Act. However, continuing loss ratios exceeding 100 percent, enactment of disaster assistance in nearly every year since 1988, and lower than desirable participation indicate that the public policy goals of the program have not been fully realized. The Secretary of Agriculture has proposed a reform of the crop insurance program to:

- Achieve actuarial soundness.
- Increase participation to levels that render ad hoc disaster legislation unnecessary.
- Eliminate incentives to enact ad hoc disaster assistance legislation.

The proposals contained in this Blueprint focus on these three areas that directly relate to the goal of achieving the targeted loss ratio. They are: (1) actuarial matters such as premium rates and yield guarantees, (2) underwriting matters such as terms and conditions of insurance policies, and (3) management issues such as compliance and risk-sharing arrangements with commercial insurers.

## **II. MANAGEMENT ACTIONS TO ACHIEVE A LOSS RATIO OF 1.10**

### **A. Develop More Accurate Insurance Yields**

The insurance yield may be the single most important factor in determining the success or failure of the crop insurance program. A yield that is too high compared to the productive potential of the person or land will increase the number of years that a loss is paid. An excessively high yield also increases the amount paid when a loss occurs. A yield that is too low will not effectively protect farmers from loss and, because it is regarded as insufficient, will not induce desired levels of participation.

From the 1985 through 1993 crop years, insured yields were based on a program called the Actual Production History (APH) Plan. The goal of this program was to obtain 10 previous yields to establish the insured yield for the next crop year. Proxy yields largely based on ASCS farm program payment yields or county averages were allowed whenever farmers would not or could not provide 10 years of history. Analysis by FCIC and others determined the proxy yields were benefiting farmers whose yields tended to be lower than average and discouraging farmers whose yields

tended to be above average. Consequently, a modified APH program that reduced the influence of the proxy yields was introduced beginning with the 1994 crop year; thus, a "ladder" was introduced into the proxy yields. Only 65 percent credit is given to the proxy yield if no actual yields are reported, 80 percent credit is given if one actual yield is reported, 90 percent if two actual yields are reported, and 100 percent if three actual yields are reported. The proxy yields are not used after four actual yields are available. The insured yield is a simple average of the 4 years of actual and modified proxy yields for the first 4 years, and then (after 4 years) is the simple average of the actual yields reported. Acquiring 10 years of production history remains the goal of the program. These revised procedures are the core of the initiatives to comply with the mandate of OBRA 93 to institute rules to demonstrate actual production histories.

The revised rules are expected to substantially reduce losses of the Federal crop insurance program. Analysis performed by FCIC indicates the new rules would reduce losses by 15 percent for corn, 22 percent for soybeans, and 18 percent for wheat. These analyses were based on simulations of loss histories using the rules for the two computational methods--the previous APH and the proposed modified-APH plans. The analyses encompassed nine states each for corn and soybeans and three states for wheat. These states and crops represented nearly 60 percent of the total premiums earned in 1990. The results indicated that the modified-APH rules would reduce losses by a weighted average of 19 percent and are believed to be representative for most crops.

The actual loss ratio for the 1990 crop year was 1.23. If the modified APH rules did reduce losses by an average of 19 percent, the loss ratio would have been 0.996. This would achieve significant compliance with the loss ratio target of 1.10.

Based on these results, FCIC implemented modified-APH for the 1994 crop year by:

- Promulgating regulations for the program during calendar year 1994.
- Measuring the impact of the modifications upon net program losses by calculating insured yields, premiums, and indemnities of policyholders under 1993 and 1994 rules.
- Where possible, determining whether the modified APH rules had the intended effect of providing a more accurate offer for farmers who previously elected not to purchase crop insurance.
- Determining whether the average number of yields reported for prior years has changed under the modified APH rules compared with APH rules for 1990 through 1993.

- Implementing a tracking system to assure that insurance experience remains associated with a person in future years (see item D below).
- Developing reporting processes to assure that the accuracy of yield determinations is continuously monitored and improved.
- Actions requiring analysis of the effects of the modified APH rules upon the accuracy of insured yields cannot be completed until losses from the 1994 crop year are processed. For wheat and other fall planted crops, such availability will occur by about the fourth calendar quarter of 1994. For spring planted crops, this does not occur until about the middle of the first calendar quarter of 1995.

#### **B. Catastrophic Yield Adjustment**

FCIC recognizes that the average of a series of observations as short as 4 years is subject to significant variations due to abnormally large or small yields during that time. For example, if a major disaster year such as 1993 is included in the 4 years, the procedure implicitly states that a similar year will occur once every 4 years. This is not likely. Thus, FCIC will examine certain adjustments to the modified-APH rules with a goal to assign more appropriate probabilities to the individual observations. These adjustments commonly are called catastrophic yield adjustments. However, just as the yields for 1 year may be abnormally low, they also may be abnormally high. Capping the abnormally high years may also be appropriate so that average yields are not excessively high due solely to a few observations.

FCIC will evaluate alternative methods to recognize catastrophic and unusually good crop years, and consider implementing appropriate adjustments to the modified-APH plan effective for the 1995 crop year.

FCIC believes that these actions to implement modified-APH will reduce the average loss ratio over time by 10-15 percentage points (e.g., from an average of 1.40 for several years to 1.25 to 1.30). This estimate is based on a conservative expectation of the actual results of the simulations described above.

#### **C. Implement Group Risk Plan**

FCIC is implementing a program of insurance that is based on the average yield of an area, not upon individual yield coverage as is offered under the traditional APH program. The area coverage is called the Group Risk Plan (GRP) by FCIC. GRP was introduced as a pilot program for the 1993 crop year for soybeans in 96 counties. It was expanded for the 1994 crop year to include seven additional crops encompassing 1,872 county crop programs (one crop in one county) in 27 states. Crops now included under GRP are barley (three states), corn (17 states), cotton (seven states), forage (two



states), grain sorghum (four states), peanuts (four states), soybeans (24 states), and wheat (eight states).

The GRP is intended to protect the insured person against the financial consequences of a disaster that strikes all or nearly all farmers in an area. It sets an expected county yield for each year based on historical yields, adjusted for any trends. Whenever the actual county average yield for the year is less than the expected county yield by a predetermined amount, an indemnity is paid. The principal differences of the GRP compared to traditional individual coverage are:

- Coverage is based on a trend projected yield, which probably will exceed the average yield of all farmers insured under individual yield coverage if there is a positive trend in yields for the area.
- Higher coverage levels (deductibles are as low as 10 percent) at affordable premium rates can be sold.

Thus, in the proper circumstances, GRP will offer risk protection that may be better than the individual coverage, and may do so at a lower cost.

GRP has characteristics that make it unsuitable for managing the adverse financial consequences of crop loss in certain circumstances. A farmer's yield each year must change in the same direction and by about the same amount as the county yield if it is to be fully effective coverage for the individual. For example, if the county's yield decreases by 25 percent from the expected yield for that year, the farmer's yield also should decline by about 25 percent from the yield he or she would have expected. In financial market terms, the "beta" of the farmer's yields and the county yields should be near 1.00.

Adequate data are a limitation to further significant expansion of GRP. The concept as presently developed uses many years (30 or more) of county yields. These data are routinely available only for counties in which the crop has been grown in commercially significant quantities. Weather data and crop growth models may permit expansion into counties in which the historical yield data are not available, but research is needed to develop and test these approaches. Further, acceptance of GRP by bankers as collateral for loans is yet to be determined.

Significant expansion of GRP is not anticipated until its contributions to agricultural risk management can be measured. No estimates of savings can be attributed to GRP because customer acceptance is not known. Customer acceptance of the soybean GRP for the 1993 crop year was limited. Fewer than 500 policies (of nearly 700,000 total for the crop insurance program) were sold. Even if the plan improves the actuarial soundness of crop insurance, the present volume of business is not sufficient to make any noticeable difference in program results.

#### **D. Implement Data Base of Taxpayer Identification Numbers**

Amendments to the Federal Crop Insurance Act enacted in 1990 authorize FCIC to collect and use social security numbers and employer identification numbers to administer its programs. These regulations were appropriately approved and were published in the Federal Register in late 1992. OBRA 93 further directed FCIC to implement a database of these numbers for certain uses not later than the 1995 crop year.

FCIC implemented the database described above in January 1994, effective for the 1994 crop year. This database is used to locate production history that is not reported by a person, to assure that classifications assigned under the nonstandard classification system (NCS - see paragraph E below) are used for both the individual who accumulated the adverse history and any person having a significant beneficial interest in a crop produced by that person, and for other related purposes. In particular, further efforts will be made to accumulate information about persons involved in sales and servicing of crop insurance--agents, loss adjusters, and other insurance providers--so that their contributions to achieving the target loss ratio can be measured.

Implementing this database will make both modified-APH and the NCS more effective by permitting FCIC and reinsured companies to assure that all appropriate experience and premium rating factors are used. Incremental improvement in the loss ratio due to modified-APH and NCS is difficult to quantify. The database will enhance those programs as well as permit FCIC to systematically measure the performance of insurance providers for the first time.

FCIC will also use the social security numbers and employer identification numbers for the implementation of an Ineligible File Tracking System. This system will be used to restrict (through an automated environment) producers who have been declared ineligible to obtain benefits provided by the Federal crop insurance program. The FCIC expects to implement the Ineligible File Tracking System beginning with the 1995 fiscal year.

#### **E. Expand the Nonstandard Classification System (NCS)**

FCIC instituted the NCS for the 1990 crop year because evidence indicated that a small percentage of insured persons had losses in nearly every year. The losses paid to these persons far exceeded paid premiums. For various reasons, the insured yields for these individuals exceeded their apparent capabilities, and the premium rates were not representative of the risks posed by these persons. NCS was intended to reduce the insurance guarantee and increase the premium rate for such individuals. Modified-APH eliminates the need to reduce insured yields because the insured yield will be based

solely on actual yields when a person is selected for NCS. However, NCS will continue to increase the premium rates as appropriate for those individuals who persistently have losses.

The Agriculture, Rural Development, Food and Drug, and Related Agencies Appropriation Act for the 1994 fiscal year prohibited FCIC from using any funds appropriated to insure crops in certain counties unless an NCS program had been implemented in those counties. Counties were affected if the loss ratio, after applying the 1993 premium rates, was greater than 1.10 more than 70 percent of the years that the crop had been insured in that county. Approximately 2,100 county crop programs were affected by this provision.

For the 1994 crop year, NCS has been extended to 11 crops encompassing over 90 percent of the total value of insurance in force. Additionally, all of the county crop programs affected by the Appropriations language have been included under the NCS. Over 25,000 individuals (about 3.6 percent of all active policies for the 1993 crop year) were included under this program. Not all of these persons had been insured during the base period. NCS also extends to persons who participated in growing the crop in some way but who may not have been insured. These persons also are classified under NCS so that the acreage cannot simply be insured under a different name to avoid the NCS classification.

In 1993, FCIC commissioned a study of the NCS to determine its effectiveness. A draft report of that study indicates that the NCS reduced the loss ratio by 5 to 10 points. This report is undergoing final preparation as this *Blueprint for Financial Soundness* is finalized.

FCIC will expand the NCS program for the 1995 crop year. All eligible crops will be included, although greater flexibility in selections may be authorized whenever program factors that led to poor experience have been identified. NCS is not suited to certain insured crops (e.g., Texas citrus trees) that are subject to infrequent losses of great severity. The additional savings from NCS are likely to be small in terms of the total business because the crops that constitute the majority of premiums and losses already are included.

#### **F. Institute Premium Rate Adjustments**

Premium rates are essential to the success of the crop insurance program. Rates that are too low will not produce adequate income and will lead to persistent losses. High rates will, paradoxically, likely lead to the same outcome. Excessive premium rates discourage participation by a broadly based cross-section of the farming community. Instead, persons who are most likely to collect indemnities will buy, and it is not likely that rates can be increased as rapidly as the relative risk of the pool of insured persons increases.

FCIC has increased premium rates for all crops in a systematic fashion beginning with the 1991 crop year. Rates have increased as much as 70 percent for some crops in some counties from the 1991 to the 1994 crop years. Decreases of up to 20 percent have been made for some crops in counties with histories of low losses. By an amendment to the Act in 1990, Congress limited general premium rate increases to 20 percent annually.

The above statistics indicate the amounts that FCIC has increased the base premium rates. The average premium rate actually earned (actual premium paid divided by actual liability) may not have increased by the same magnitude for various reasons. Most importantly, insured persons may choose a lower coverage level when the rate increases. By doing so, they accept a lesser degree of protection but also pay a lower premium rate.

FCIC proposes to continue premium rate increases as needed to help achieve the required loss ratio. The rate increases made during 1991-1994 have done much to enhance the actuarial soundness of the program. However, the premium rates for some crops and areas of the country remain below the levels needed to achieve the overall 1.10 loss ratio target.

The impact of premium rate adjustments has been evaluated by using data for the 20 years from 1973-1992. The effectiveness of the adjustments was measured by applying the current 1993 premium rate levels to the historical period from 1973 and all subsequent years. The loss ratios were recalculated by using the revised premium amounts.

This method does not include any change in sales that may occur due to a higher or lower cost of insurance. It assumes the 20-year base period is adequate to measure actuarial performance, an assumption that may not be the most appropriate definition of actuarial soundness. Events such as a 1993 Midwestern flood may or may not be appropriate to include in the 20-year base period for a particular area of the country.

In 1993, seven crops (barley, corn, cotton, grain sorghum, oats, soybeans, and wheat) constituted 75 percent of total premiums. The loss ratio for 1980-1992 for these seven crops was 1.45, identical to the loss ratio for all insured crops for this same period. Thus, changes in premium rates for these crops should be representative of the changes that have been made for all crops in recent years. The premium rate changes for the seven crops through the 1994 crop year are estimated to have been adequate to reduce the 1980-1992 loss ratio from 1.45 to 1.08. This aggregate result meets the 1.10 standard required by OBRA 93, but only two of the seven crops individually meet this standard. Within each of these crops, many parts of the country will meet the standard but others will not. Hence, additional rate changes in 1995 and later years are appropriate.

FCIC recognizes that premium rate increases are an important component of a viable crop insurance program. It is also recognized that increasing premium rates to the levels suggested by the most recent 20 year experience may not be good public policy. Extremely high premium rates will preclude realization of the social benefits and public policy goals of the program because participation will be discouraged. If this happens, experience indicates that ad hoc disaster assistance will be enacted. Such assistance is less likely to satisfy social objectives with regard to maintaining rural communities and adequate supplies of food and fiber because it is uncertain for any particular year or region of the country. Thus, a catastrophic adjustment process may be needed to temper the influence of a year such as 1993. If the weather of 1993 truly is a 1 in 100 year event (or, as some have suggested, a 1 in 500 year event), its influence should be tempered in terms of the premium rates charged to insured persons.

In addition to changing premium rates as needed, FCIC proposes to take a number of additional actions to enhance the accuracy and adequacy of its actuarial activities. These include:

- Develop computer software and other tools to enhance the quality of the data used to establish premium rates and perform actuarial analyses ("STATPLAN" database, due for completion in October 1994)
- Plans to contract with a major actuarial consulting firm to review all aspects of FCIC's actuarial methods (targeted to be let in 1994).
- Enhance staff skills by additional training in analytical methods for existing personnel and more emphasis on recruitment of actuarial trainees (ongoing) for appropriate functional units.
- Continue to contract with external specialists such as the Economic Research Service, land grant universities, the Cooperative Extension Service, and others (ongoing).
- Develop models to measure sources of change in premium volumes and track the effects of premium rate changes as isolated from changes induced by factors such as price elections, coverage level choices, insured crops, and other factors that are not controllable by the rate-making function (development to begin immediately).

#### **G. Improve Underwriting of Crop Insurance Contracts**

Underwriting begins by establishing the basic terms and conditions of the coverage. These include defining conditions that result in a covered loss, measuring the amount of that loss, and defining the responsibilities of the insured and the insurer. Underwriting continues with proper classification of an insured risk. For example, planting crop B the year after crop A was grown on the same acreage may be riskier than if other crops



were grown the previous year. Some land, such as flood plains, is more prone to losses. Quality of management also is important. A farmer who is organized, plans, performs preventive maintenance on equipment, and performs field operations in a timely manner may minimize losses.

A comprehensive underwriting system requires effective risk management strategies and goals, standards, and documentation. Initiatives to improve underwriting that began in the early 1990's will be continued as part of the strategy detailed in this Blueprint. The following specific actions will be pursued:

- Fully automate the actuarial documents to facilitate more comprehensive underwriting at the point of sale and to verify the classification of risk in an automated environment (completed by the 1996 crop year).
- Develop standards and classification systems to assess and classify individual risk, including completion of research intended to develop a "scoring model" for risk that is based on measurable attributes of a person or situation similar to a credit rating model (for implementation by crop year 1996 if this model is feasible).
- Continue to rewrite crop insurance policies to better describe the insurance coverage and limitations and to reduce vulnerabilities to actuarial soundness that exist due to imprecise, unclear, or omitted terms and conditions (ongoing, with major crops scheduled for the 1995 crop year).
- Encourage development of supplemental or alternative insurance coverages authorized by section 508(b) of the Act so that coverage may be improved with most of the risk remaining in the commercial sector.

Improved underwriting will improve program performance. However, meaningful measures to quantify possible benefits are not readily available. For this reason, FCIC cannot attribute a specific dollar amount to the benefits of improved actuarial systems and crop insurance policies.

#### H. Emphasize Program Compliance

The FCIC Compliance function is designed to confirm that the Federal crop insurance program is operated and delivered as intended. Through internal reviews based on generally accepted auditing principles, it assures that program controls are in place against excess losses due to waste, fraud and abuse. Compliance emphasis will focus on:

1. **Program Delivery.** Beginning in 1987, the Compliance staff conducted reviews of program delivery to assess compliance with regulations, policy, and procedure.

That year, according to GAO and OIG audits, errors in claims payment represented an estimated 15 percent of all losses paid equaling \$55 million of taxpayer dollars. Since that time, Compliance efforts have reduced these errors to approximately 5 percent of indemnities but still need continued improvement. Losses due to claim payment errors are not included in underwriting calculations of risk, so this reduction in excess losses has a direct and immediate impact of lowering the program loss ratio without increasing program cost or premium rates.

To further reduce claims overpayment the Compliance Staff will review the entire operations of each delivery company in coordinated nationwide reviews. The review methodology was recently revised to reflect generally accepted auditing principles and statistically projectable sampling techniques.

Beginning with the 1995 crop year, Compliance requirements will be expanded to define specific quality control and performance measurement processes for each delivery company. Policy service error rates will be monitored. The performance of each company will then be compared to an established national standard.

2. **Program Performance.** Compliance reviews for several years have shown that a proportion of the excess losses are attributable to features in program construction that produce unintended results. The Compliance Staff will conduct program performance reviews that assess regulations, policies and procedures designed to prevent waste, fraud, and abuse and that the program, policies, and procedures perform as intended.

As an example, in 1989 GAO claims that construction of policy language in the California Safflower program alone resulted in approximately \$20 million in excess losses. It is not possible to determine how much of FCIC losses may be attributable to unintended features of program construction. However, recent program performance pilot reviews of the peanut program and regional irrigated practices resulted in an estimated 4 to 10 percent reduction in losses for those areas that may otherwise have gone undetected.

For the past several years Compliance has conducted ad hoc program reviews on topical issues. These reviews will be expanded to identify and target reviews for crop insurance programs with the greatest potential vulnerability.

3. **Fraud Prevention.** The risk of fraud is particularly acute in the insurance industry. Estimates for property-casualty insurance indicate insurance fraud may represent as much as 15 percent of all losses paid. Recent efforts at crop insurance fraud detection and subsequent prosecution have been increasingly successful. However, after-the-fact controls on program abuse are not fully effective. Compliance will work with the delivery companies to focus on practical, cost efficient fraud prevention. Compliance operations, program performance, and complaint reviews

will emphasize identifying systemic vulnerabilities and assessing program safeguards. Discrepancies noted in review findings will be evaluated to determine the underlying causes.

Emphasis also will be placed on measures to control program abuse that include strict contract enforcement and pro-active policy analyses that identifies potential abuse and targets additional claims review. These measures will be coupled with the aggressive implementation of civil sanctions, agent/loss adjuster debarment, and designating producer ineligibility in findings related to program abuse.

#### **I. Assure that Adequate Risk is Borne by the Commercial Insurance Industry**

Amendments to the Act in 1990 directed FCIC to assure that adequate risk is borne by the commercial insurance companies reinsured by FCIC, consistent with their ability to bear risk and the availability of commercial reinsurance. For the 1992 reinsurance year (a 12 month period that began on July 1, 1991 and ended on June 30, 1992), FCIC substantially modified its Standard Reinsurance Agreement (SRA) with the commercial insurers which participate in the program. Both the amount and the probability of losses on the part of the commercial insurers were increased in this agreement. Additional incremental changes in the amount of potential gains and losses were made for both the 1993 and 1994 SRA's.

The GAO suggests in a report entitled Crop Insurance Program Has Not Fostered Significant Risk Sharing by Insurance Companies (GAO/RCED 92-25, January 13, 1992) that the changes in the 1992 SRA are not significant enough in the area of risk bearing by the commercial insurance companies. Still, the 1992 SRA fundamentally changed the manner in which gains and losses are calculated, a subtle but effective measure to increase risk. The amount of potential loss increased, but the change in the formula increased the chances that the company would lose in years of poor experience. As a comparison, the commercial industry lost approximately \$8 million in 1988 when the crop insurance program sustained a loss ratio of 2.45 primarily due to drought in the Midwest. If that experience is restated to the larger 1993 premium amounts, the loss still would have amounted to only about \$10-15 million. Results from the 1993 crop year are not yet complete, but current estimates indicate that commercial insurers will sustain losses of \$80-85 million although the loss ratio will be less than in 1988. The difference is caused by the SRA changes.

Some will argue that industry-wide losses of \$80-85 million are not significant compared to overall program losses that may be near \$900 million in 1993. Two factors bear on this issue: (1) The ability of the insurance companies to earn reserves under the SRA, and (2) The effect of losses upon an insurance company's operations in future years.

The commercial industry can bear a greater share of the losses only if there is corresponding opportunity to achieve comparable earnings in favorable years. Over the long term, the industry must achieve a satisfactory rate of return on invested capital, or it would make economic sense for participants to invest in other endeavors. The SRA must allow adequate opportunity to earn this satisfactory rate of return. It also must permit accumulation of reserves to pay losses in years that disasters strike. Under the present SRA and the conditions of actuarial soundness of the program, there is no opportunity to accumulate the reserves needed to bear a large portion of a \$900 million loss.

Losses directly impact the capital structure of the companies. An insurance company leverages its capital (the term "surplus" is used by the industry) to support the volume of business that it writes. As a general rule, an insurance company is permitted by regulators to bear the risk associated with \$2 to \$3 of premium per \$1 of surplus. The ratio of premiums to surplus may be lower for risky lines of insurance such as multiple peril crop insurance. Thus, whenever an insurance company loses a portion of its capital, its ability to accept premiums in future years is reduced by a greater amount, which in turn reduces its ability to earn profits and reserves. These factors must be considered when the ability of the industry to bear risk is evaluated, as is mandated by the Act.

As appropriate, given the factors discussed above, FCIC will evaluate (1) the need to increase risk sharing with the commercial insurance industry as the program achieves greater actuarial soundness, (2) reducing cessions to the assigned risk fund by requiring the industry to share in losses for loss ratios that exceed 5.00, (3) changing the stop loss provisions of the SRA, and (4) recruiting additional commercial insurers to participate in the crop insurance business. These changes will be made incrementally beginning with the 1995 SRA that takes effect on July 1, 1994.

#### **J. Improve Loss Adjustment**

Any actuarial and underwriting system can be affected by errors in adjustment of losses. These errors include both overpayment and underpayment of claims. Underpayment would not seem to be a factor influencing actuarial soundness, but failure to pay a loss when due will cause insured persons to question the value of the insurance and potentially reduce participation. The insurance experience also will not accurately depict the nature of the risk insured, leading to inaccuracies in future premium rates.

Some problems in loss adjustment are directly related to deficiencies in underwriting. For example, if the crop insurance policy is not clear on a particular point, the loss adjuster may find it necessary to make a determination in favor of the insured person. FCIC will undertake the following initiatives to assure high quality of loss adjustment determinations so that results are fair to insured persons and taxpayers:

- Develop uniform loss adjustment standards that clearly specify the requirements for accurate determinations.
- Continue research to improve loss adjustment methods, such as yield appraisal methods and techniques for unharvested crops, and measurement techniques for stored production.
- Strengthen the quality adjustment provisions of crop insurance contracts and develop standards to prevent abuse of production determinations when quality losses are claimed.

The contributions of these factors to achieve the 1.10 target loss ratio will be measured by a reduction in improper amounts paid on claims and a reduced error rate. The potential impact of these actions is difficult to quantify since the initiatives to improve underwriting also affect this area. These actions are ongoing. Loss adjustment standards for major crops and changes to the quality adjustment provisions are targeted for the 1995 crop year.

#### K. Marketing Crop Insurance

FCIC marketing efforts for 1994 will be directed by a strategic marketing plan based on information and data received from market research compiled across the country. The plan's main objectives will be to inform members of the farming community about changes in the program and to educate farmers about risk management, emphasizing the value of crop insurance to farming operations.

FCIC will conduct a year-long media campaign targeted at publications and broadcast markets with an agricultural audience.

Also, emphasis on outreach to minority farmers, traditionally under-represented in the program, will be coordinated through a Minority Outreach Marketing Plan that specifically identifies minority farmers in each of the 10 FCIC Regional Service Offices.

#### L. Expand Participation by Introducing New Products

Numerous ideas for products that will enhance the quality and acceptance of the crop insurance program have been suggested. These include cost of production coverage (several different concepts), dollar denominated coverage, revenue insurance, replacement cost insurance, and others. FCIC currently has contracts with the Economic Research Service to evaluate several alternatives in the context of public policy contributions, availability of data to support the concepts, assessments of producer acceptance, and other factors. FCIC proposes to continue such research and seeks comments about additional concepts that may be appropriate. Implementation of a pilot test of the best alternatives will be pursued.



### M. Improve Accuracy of Other Program Variables

This section includes items that impact the program but are not easily categorized under a previous heading. These are:

- **Unit division.** A unit is a tract of land used to establish the amount of insurance and any indemnity. For example, the crop insurance policy defines a unit as all land in a county that is owned by the farmer or rented for cash and planted to the insured crop. This unit may be subdivided under certain conditions, including payment of additional premium. Generally, insured persons favor a program that gives them greater flexibility and freedom for establishing a unit. Some research indicates that size of a unit may affect losses, i.e., a unit consisting of 10 acres may have a greater loss (in relative terms) than a unit consisting of 100 acres. This research, if verified, suggests that a surcharge may be needed for small acreage units regardless of how these are formed (by dividing larger units or because this is all the land planted to the crop). FCIC will examine the research and determine if this surcharge is appropriate, both actuarially and as a public policy initiative. FCIC also will explore the potential to provide greater flexibility of unit determinations as a tool to enhance program acceptance by customers. The pricing needed to support greater flexibility must be determined before it can be implemented. Implementation of changes will be targeted for the 1996 crop year.
- **Program dates.** Program dates include sales closing, acreage reporting, cancellation, and others. Several of these dates may directly affect the actuarial soundness of the program. For example, neither the farmer nor the insurer should be able to predict the potential for loss on the sales closing date. However, a study by one university indicates that farmers may achieve better than a 50-50 probability of predicting a loss with the current sales closing date of April 15 in the Midwest. Arguments in favor of having a sales closing date as late as possible generally focus on the need to maximize sales opportunities; i.e., that interest in purchasing crop insurance is greatest as planting time approaches. In a draft report, the GAO has encouraged FCIC to close sales earlier. FCIC proposes to close sales for the 1995 crop year by 15-30 days earlier than the present dates. FCIC requests comments regarding other actions with regard to program dates that will facilitate achievement of the targeted 1.10 loss ratio.
- **Staged guarantees.** Staged guarantees reduce the amount of insurance when a crop is lost before harvest. For example, a farmer who abandons a crop within 30 days of planting might be paid only 40 percent of the amount of insurance. The concept underlying staged guarantees is investment costs; the farmer's investment is less than the total needed to produce and harvest the crop. Some believe this approach will reduce outlays for indemnities and help achieve actuarial soundness. However, in the long run its effect could be to reduce premium rates from levels otherwise needed. The impact of staged guarantees upon customer acceptance of

crop insurance may be the valid measure of this concept. FCIC specifically requests comments on this feature and assessments of its potential contribution to achieving the targeted 1.10 loss ratio.

- **De minimus yields.** This term denotes a yield below which any production is disregarded for the purpose of determining the amount of indemnity. The concept is advanced by interested parties as an equity issue--that it costs the farmer more to harvest the crop than it is worth in the market. If allowed by the program, indemnities will increase compared to the present provisions of the crop policies, which, in turn, requires higher premium rates to achieve the goal. Readers are encouraged to comment on the desirability of increasing premium rates by an amount needed to permit this feature to be included in crop insurance policies.
- **Suspension and debarment.** Inappropriate determinations and poor administration of the crop insurance program is alleged about agents, loss adjusters, and others who are involved with delivery of crop insurance. The SSN/EIN database is intended to help FCIC monitor the conduct of these persons. However, monitoring in and of itself is insufficient if there are no penalties for violations of program rules. FCIC proposes to develop clear and concise suspension and debarment procedures for agents, loss adjusters, reinsured companies and others who fail to observe the highest standards of performance in program delivery and administration.
- **Price Elections.** The GAO recommended in a 1991 report that for the major crops, FCIC set its price elections equal to the forecasts issued by the World Agricultural Outlook Board in its semi-annual estimates. These estimates correspond to the cycle used to prepare the annual budget of the United States Government. These estimates are available only twice each year. Based on a sampling of a few years, GAO stated that overall losses would be reduced if this recommendation were adopted. FCIC is committed to offering a price election that complies fully with the requirements of the law. In addition, the offer must be meaningful to farmers. FCIC requests comments regarding this recommendation and assessments by readers of its likelihood of contributing to reduced loss ratios and improved participation.

Readers are requested to identify additional issues that they believe are relevant and important to assist FCIC in its actions to manage the program to achieve the target loss ratio while maintaining or increasing participation levels.

### **III. MANAGEMENT ACTIONS IF SECTION II ARE NOT SUCCESSFUL**

The actions identified in Section II of this document represent a major reinforcing of FCIC efforts to achieve the important goal of financial and actuarial soundness in Federal crop

insurance. FCIC believes that successful completion of these actions will meet the objective of achieving actuarial soundness as required by OBRA 93. Several years must elapse before it will be possible to observe FCIC's achievement of the objective. In the interim, attainment must be measured by realistic models of risk that adequately represent the crop insurance program. Flexibility in managing the program to attain the objective while simultaneously achieving other important policy objectives must be stressed.

Few options that do not adversely affect participation in a material manner are available in the event the actions described in this blueprint are determined to be inadequate. One option is to focus better on defining the risk that is included in the premium rates charged to current insureds. Extreme crop disasters (such as the 1993 flooding and cold, wet growing season) tend to be widespread and occur infrequently. Crop insurance is not actuarially sound in a commercial sense because the private sector cannot manage the magnitude of these risks or arrange the financing over the long periods of time needed to accumulate reserves for a major disaster. This characteristic of crop disasters argues that actuarial soundness perhaps should be measured on a basis that separates normally expected conditions from the extreme disasters. This would serve to more precisely define the risk included in the premium rates for current insureds, and the risk that should be amortized over longer time periods.

If the above is not acceptable, another action would be to limit the liability of crop insurance to specific areas and crops. This limitation could take the form of complete withdrawal of insurance in some cases, or limitations on the volume of business that would be accepted in a year for a crop or area. Commercial insurers use this process to manage their exposure to avoid concentrations geographically or by product line. Crop insurance may need the same management of its exposures rather than accepting any and all risk whenever farmers decide to enter and exit the program. This extreme action would indicate that the program was unable to completely fulfill its social and public policy responsibilities, and must be regarded as an initiative of last resort.

#### IV. MANAGEMENT ACTIONS IF ACTIONS IN SECTION II ARE MORE SUCCESSFUL THAN NEEDED

The greatest impediment to increased program participation will be high premium rates that might result from the actions defined in this plan. Moderation of premium rate increases will be a priority if more stringent program administration reduces the loss ratio below the target. If this occurs, experience should be examined to identify losses paid that no longer should be expected. Once the impact of those losses is eliminated from the experience, some improvement in premium rates would be anticipated. FCIC believes that the remaining management actions that have improved administration of the program or that have better defined the coverage provided to U. S. agriculture should not be relaxed because these generally represent good administration of public policy.

# REVIEW OF THE ADMINISTRATION'S FEDERAL CROP INSURANCE REFORM PROPOSAL

TUESDAY, APRIL 5, 1994

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT,  
AND RURAL DEVELOPMENT,  
COMMITTEE ON AGRICULTURE,  
*Luverne, MN.*

The subcommittee met, pursuant to notice, at 9:30 a.m., at the Veterans of Foreign Wars, 705 South Highway 75, Luverne, MN, Hon. Tim Johnson (chairman of the subcommittee) presiding.

Present: Representatives Minge and Peterson.

Staff present: Anne Simmons.

## OPENING STATEMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. JOHNSON. We will bring this field hearing of the Environment, Credit, and Rural Development Subcommittee of the House of Representatives Committee on Agriculture to order.

This is a field hearing held here at the V.F.W. Hall in Luverne, Minnesota. It is the one and only field hearing on the issue of Federal crop insurance that this committee will be holding this year prior to holding hearings in Washington and marking up legislation on crop insurance later on in the year.

I am holding this hearing at the request of my colleague, Dave Minge, to review the administration's comprehensive proposal, the Federal Crop Insurance Reform Act of 1994, for the reform of our Nation's crop insurance program.

The need for reform has been apparent to me for some time and has been dramatized as I toured the Midwest flood States this past summer and listened to the many concerns of the producers throughout the region.

I think there is a growing awareness among producers all across this country that currently we have a dual system of crop insurance and sometimes ad hoc disaster payments, neither of which is working as well as it ought. It is time for us to consolidate the two into one good risk management tool that, in fact, works, and is not subject to the political whims of ad hoc disaster programs.

The general consensus is that the current crop insurance program is not working as well as it should. The Federal Crop Insurance Corporation experiences large losses every year, pegged at over \$1 billion this year alone.



On top of this, the Congress has authorized ad hoc disaster programs each and every year since 1986. One goal of the 1980 overhaul of the crop insurance program was to eliminate the need for ad hoc disaster programs, inasmuch as they undermine the crop insurance program itself.

Clearly, this has not happened, and despite the fact that the Federal Government has spent an average of \$1.7 billion combined for crop insurance and ad hoc disaster payments in each year for the past 10 years, many producers are understandably not satisfied with either program.

Producer dissatisfaction of the crop insurance program is evidenced by the fact that participation is limited. Only 30 percent of the eligible acreage is enrolled, and when they do experience crop loss coverage it is often inadequate.

Ad hoc disaster programs are unpredictable in that they require emergency appropriations. They also require the right combination of political circumstances around the country. Producers cannot budget for ad hoc disaster programs, and it makes their financial planning extraordinarily difficult.

We have two programs purportedly working side by side to help producers, but in actually they are working in some respects at cross purposes. The very existence of ad hoc disaster programs makes the crop insurance program less effective and less attractive.

Many producers do not take out crop insurance because they believe, understandably, that the Federal Government will bail them out by offering free ad hoc disaster payments.

I commend the Secretary of Agriculture for taking a comprehensive approach to reform, offering one program that combines crop insurance for program crops with catastrophic insurance for non-program crops, and will help solve many of the problems enumerated.

This subcommittee must now examine the details of the administration's bill. Above all, any crop insurance proposal must be fiscally sound and within our budget requirements.

Producers must be convinced of two things. One, their out-of-pocket costs for insurance must be commensurate with the potential indemnities they may earn, and second, ad hoc disaster programs are indeed a thing of the past.

There are many other concerns that have been expressed to me about the administration proposal, and we will have an opportunity to listen to those concerns and discuss them in this hearing.

This hearing is the second of three I've held or will be holding on crop insurance. On March 25, this committee held a hearing in Washington with Under Secretary of Agriculture, Gean Moos and Ken Ackerman, Manager of the FCIC.

I have scheduled a hearing on April 21, back in Washington with additional outside witnesses.

I plan on being as aggressive as possible in moving this legislation through this subcommittee. I plan on holding a markup as soon as the schedules permits.

I want to thank Congressman Minge for inviting me to discuss a topic which is of vital importance to his district. I want to welcome everyone in attendance. I look forward to hearing today's testimony.



I want to add as well that the State of Minnesota is unusually well-served relative to agriculture and rural issues by the presence of Dave Minge who has established an excellent reputation on the Committee of Agriculture already, and Collin Peterson who is a proven leader in agriculture as well.

Both of them bring not only a hard work ethic to the committee, but a degree of common sense that all too often is missing in deliberations in Washington. The people of Minnesota can be immensely proud of the service that they have from both Mr. Minge and Mr. Peterson.

I will yield for any opening statement that the more senior of my colleagues has.

Mr. Peterson first.

#### **OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. PETERSON. Thank you, Mr. Chairman. I will be brief.

I want to commend your leadership on taking hold of this issue and moving aggressively. It is time that we do something. The timing is right. We have the administration on board for, I think, the first time that they have really been committed. I think we have a real opportunity to put this together. We work on it real hard, and I understand that you are going to do that.

I held some meetings in my district yesterday to talk about the administration's proposal. We have a lot of issues that we are going to have to deal with as we go through this. I am sure you are hearing the same sort of thing from your constituents.

I am glad to be here in spite of the fact that it snowed last night. We didn't get any snow up North. We live right up there.

But glad to be in Luverne. The first time I've been here, and it was beautiful flying in this morning.

Thank you.

Mr. JOHNSON. Mr. Minge?

#### **OPENING STATEMENT OF HON. DAVID MINGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. MINGE. Thank you, Mr. Chairman. I appreciate the willingness of the committee to hold the hearing in the Midwest, and particularly to hold the hearing here in Luverne.

It provides us with an excellent opportunity to not only learn about the proposal that is coming from Secretary of Agriculture Espy and President Clinton with respect to crop insurance, but also to comment on that proposal.

Altogether too often we have hearings in Washington, and it is expensive. It is difficult for people throughout the country to attend these hearings, and there is a feeling of remoteness that Washington is making decisions without considering or understanding what is going on in the countryside.

This is our chance here in South Dakota, Minnesota, Iowa, to participate in the formation of legislation. The fact that this is the only field hearing that will be held outside Washington, DC, on this important topic this year, I think, gives added significance to our gathering here today.

Many of the comments that have been made by Chairman Johnson are ones that I wish to echo. In addition, I would point out that we have areas of consideration or concern with crop insurance that go beyond its relation to the ad hoc disaster programs.

We have had difficulties with the lack of preventive planting coverage, penalties for late planting. The policy for 1994 has been modified to try to address those concerns.

We have had additional questions with respect to yield, with respect to loss ratios in different portions of the country, and added features of the program. These are all things I hope that we can take some time to address this morning. In addition, I know they will be addressed as this legislation moves through the committee.

I think it is especially significant that in attendance in Luverne this morning or students from the Luverne Senior High School. There are approximately 110 that are including this as a part of their educational program, and I certainly welcome them to this hearing. Thanks again for coming, and I look forward to the comments from those of you in the audience that are not a part of the regular panel.

Mr. JOHNSON. Thank you, Representative Minge.

We will proceed with three panels of witnesses in the conduct of this hearing today. This is an official hearing of the U.S. House Committee on Agriculture, and the record and will be shared with our colleagues and staff back in Washington.

At the conclusion of the testimony from the panels today, we will have an opportunity for those who are not formally on one of the panels to express opinions or ask questions. We will have an open microphone, at least for a reasonable period of time at the conclusion of the hearing.

It will be important, however, for you to sign up on a sheet in the rear of the hearing room so that our record keepers know for certain who it is who is making their statements, and you will be called based on your sign up sheet in the back. So please cooperate with us in that regard if you are interested in your own comments or questions.

The first witness we have is Mr. Kenneth D. Ackerman who is Manager of the Federal Crop Insurance Corporation, U.S. Department of Agriculture in Washington, DC.

Mr. Ackerman, welcome to the subcommittee. Your full statement is received for the record of the subcommittee. You may choose to abbreviate or to summarize however you wish, but please do proceed.

#### **STATEMENT OF KENNETH D. ACKERMAN, MANAGER, FEDERAL CROP INSURANCE CORPORATION, U.S. DEPARTMENT OF AGRICULTURE**

Mr. ACKERMAN. Thank you. I want to thank Chairman Johnson and Congressman Minge and Congressman Peterson for having this hearing today in Minnesota.

I agree with one point that has been made. It is very important in discussing proposal like this to have hearings in the field.

When we put our crop insurance proposal together within the administration, we made a point to have meetings with farmers who are affected by crop insurance in a number of States: North Da-

kota, Texas, Louisiana, Minnesota, Iowa, Maine, Nebraska, and others, and we hope to continue that.

Washington, DC, is a very nice city, but there aren't a lot of people there who carry crop insurance. If we are going to get feedback on this program, it is important to discuss it here in Minnesota, and South Dakota, and Iowa, and parts of the country where this issue is very meaningful, a very part of the way of life of people who live there. So having this hearing here in Minnesota is extremely useful, and I am very glad to be here this morning.

I made a point to bring some good weather with me from Washington, so you are welcome.

Mr. JOHNSON. We usually bring hot air with us, not cold air with us. [Laughter.]

That's usually what happens when people from Washington come home, but go ahead.

Mr. ACKERMAN. Well, we are new Democrats. [Laughter.]

As you know, about a month ago, Secretary Espy unveiled a very major set of changes in crop insurance covering a lot of territory. We very much appreciate the fact that this subcommittee has been very prompt in holding hearings on this proposal.

Crop insurance is one of those programs that has been the subject of a lot of criticism over the years, a lot of call for change. We hear dissatisfaction from farmers, from taxpayers, from Congress, GAO, OMB, Office of Inspector General of the Media. Virtually everyone who has looked at this program has had problems with it.

As a general matter, you can look at the current problems with crop insurance as being a result of it being in the middle of two current trends. Over the past half dozen years or so we have seen an unprecedented parade of disaster affecting American agriculture starting with the 1988 drought of the century, the 1989 drought, the 1992 hurricane of the century, the 1993 flood of the half millennium at the same time as a major drought.

Scientists disagree as to whether all these events are related—whether or not they are, clearly, the risk of loss among American producers is now foremost in their mind. Recent experience has put it there.

At the same time while there is increasing demand for ways to address risk, we base historic type budgets at every level of government. As you know, the Federal Government in Washington is dealing with a deficit in the multi trillions of dollars. Interest on the national debt is one of the largest items in the budget, over \$200 billion a year. Deficit reduction has become one of the major priorities of this period in our history.

Last year the Omnibus Reconciliation Act took a \$3 billion hit from Agriculture. Whenever you talk about deficit reduction, agriculture has always been front and center.

This years budget, similarly, has a major reduction in agriculture. As we go forward, we can expect that trend to continue as well.

The problems with crop insurance were very much accentuated by last summer's flood, or very much exposed by last summer's flood and drought. The major problem was the sheer magnitude of the disaster in rural America.



Just to give you a sense of the size of the problem, for the crop year 1993, FCIC paid out a total of \$1.64 billions, \$1.6 billion in claims to American farmers for losses.

By contrast, in 1992, the year of Hurricane Andrew, we paid out about \$920 million in claims. That is \$700 million less. The difference being the magnitude of the destruction in American agriculture because of last summer's flood and drought.

To give you a sense of how this struck closer to home in this part of the country, in the State of Minnesota, Minnesota was the State with the single largest number of claims in dollar amount because of destruction of last summer's flood. Farmers in Minnesota received claims of \$353 million from last summer's flood. The State of Iowa, which is very nearby, farmers had claims of \$281 million. South Dakota, \$54 million.

So very large amounts of money needed to be paid out, and these are insurance claims. This is money that farmers paid for. Coverage they paid for, coverage that they earned.

Because of the simple magnitude of the problem, the amount of loss, the size of the demand to get money out to people quickly because of the crises they were facing, this exposed a lot of problems in our system. Everything from the lack of preventive planning coverage, which, again, was a very significant problem in this specific part of the country.

South Dakota, we estimate that about 1.1 million acres could not be planted last year because of the rains that hit early in the year. In Minnesota, 846,000 acres could not be planted last year. In Iowa, 1.2 million acres could not be planted last year.

So the lack of preventive planning coverage as part of our core policy was a very significant problem for farmers in this part of the country.

There were problems with our price selections being too rigid. There were problems with out placing some of our offices too close to rivers. Some of our buildings got flooded out last year.

But one of the major problems that became evident during the flood was one which several of you have referred to and that is the fact that over the past several years in this country we have developed two systems, two Government programs existing side by side trying to address the same problem.

We have a crop insurance program which costs American taxpayers close to \$900 million a year. That is a lot of money by any way of figuring, even by Washington standards that is a lot of money. Yet, despite that investment by taxpayers, the leverage of cover is very limited.

In 1993, only 33 percent of potentially insured acres were in fact covered by crop insurance. Only 83 million acres out of 250 potential acres were covered by crop insurance. As a result, when actual disasters have struck, major droughts, major floods, Washington has had to step in year in and year out with ad hoc disaster programs.

What has happened is that even though these disaster programs are very important, we have tried to stress in this debate that these disaster programs were very responsible actions by the Federal Government to address needs of citizens, these disaster pro-

grams helped hundreds of thousands of farmers and nonfarmers alike survive one of the worst crisis in their adult lives.

The problem is that the uncertainty created by ad hoc disaster bills has created a problem both for farmers and for taxpayers.

From the farmers point of view the problem is very straightforward. If you do not have crop insurance and you rely on ad hoc disaster aid, you simply do not know in any given year whether you are going to have protection and what your protection is going to be.

Last week I was in the State of Louisiana, which was hit by Hurricane Andrew in 1992. If you were one of those farmers that was totally wiped out by Hurricane Andrew, you received a disaster payment at 50 percent proration. That means you go through the legal disaster formula which gets you down to about 40 to 45 cents on the dollar to start with, and then it was cut in half because that was the level of funding that the appropriations committees in Congress were able to provide that year.

A farmer who suffered a complete loss from the 1993 flood received disaster aid. Received this 40 to 45 cents on the dollar, fully funded. They got the whole amount.

The difference to the individual farmer, if you are that farmer suffering a full loss, it doesn't matter whether 1 State is affected or 10 States were affected; you suffered a full loss. But because of the ad hoc nature of these disaster programs, producers simply do not know year in and year out whether they are going to get protection or what the protection formula is going to be. That is simply not a good way to run your farm operation as a business.

From the taxpayer point of view, it is the same problem: uncertainty.

As you can see from the first chart in my testimony to the subcommittee, over the past 10 years, Washington has provided these ad hoc disaster payments for the last 8. And the average cost to taxpayers for these crop loss disaster programs has been about \$1 billion a year. Some years it was zero, some years it was way more, but that is the average.

However, disaster aid is not subject to any of the budget discipline rules that apply to every other area of Federal funding. It is not subject to the so-called pay-as-you-go rules. It is considered emergency funding; it is passed and simply added to the Federal deficit.

What we have seen as a result is that over the years the size of these disaster programs has grown. So over the last 6 years the average has risen to over \$1.5 billion a year, and each time there is another disaster bill, the level of taxpayer resistance gets more and more extreme.

This is not only a phenomenon involving agriculture. This is a phenomenon involving disaster bills for earthquakes, for fires, for every other area of emergency spending.

We saw it very dramatically a few weeks ago when Congress debated a disaster relief bill for the Los Angeles earthquake of about \$8 billion. Even though everyone in the country had seen the devastation from Los Angeles and knew the need of the assistance, the bill was held up for several weeks because of amendments to tie



it to budget cuts. This phenomenon is one that we can very much expect to go forward with or to see it go forward.

The proposal that Secretary Espy put forward for crop insurance tries to get at these problems from a number of directions. The centerpiece is a piece of legislation called the Federal Crop Insurance Reform Act of 1994. The central premise of that bill is to try to combine crop insurance and disaster aid into a single, unified, on-budget program.

To do this requires two steps. First, we are proposing essentially to create a legal barrier against future ad hoc disaster bills. Essentially, we are taking away their emergency status under the Budget Enforcement Act. To pass one, it has to be paid for with offsetting budget cuts.

Then, on the other side, to protect farmers in the absence of an ad hoc disaster bill, we are proposing to expand the crop insurance program. This expansion takes a number of forms.

The most significant one is the creation of a new level of protection called catastrophic coverage, which will be made available to all farmers of covered crops. The Government would essentially pay the premium. It is like a rainy day fund. The farmer would pay a processing fee of \$50 per crop per county with a limit of \$100 per county.

The idea is that this catastrophic coverage would replace the disaster payment. The level of coverage provided would be 50 percent of yield at 60 percent of price. A level designed to be very similar to what farmers have gotten under disaster bills for the past few years falling between that 50 percent and 100 percent proration levels.

In my testimony, I have provided you with some numerical examples of a corn farmer, and wheat farmer, a cotton farmer, and how this 50/60 coverage would protect them compared to the disaster programs. This is the final four or five charts in the testimony package.

The main difference, however, between catastrophic coverage and disaster aid is that it is not ad hoc. It is an insurance contract. It is a financial asset that a farmer has at the beginning of the year. They can take it to the bank as collateral on a loan. If a producer is the only one in the entire country suffering a loss, they know they are protected. They don't have to worry whether farmers in 10 other States suffer a disaster.

In order to make sure that the largest number of farmers in fact get their hands on this coverage, we are proposing to link it to participation in farm programs and Farmers Home Administration loans.

In other words, to qualify for a wheat deficiency payment or a corn deficiency payment, a farmer must have acquired at least catastrophic level of coverage under crop insurance. We project that with this linkage, crop insurance participation would rise from its current 33 percent level to about 80 percent. A very dramatic rise.

I know whenever you start to talk about linkages and mandatory programs that raises a red flag. People don't like mandates. Nobody likes being told what to do. That is human nature, but we think in this case the proposal is reasonable. The fact that we are talking about a catastrophic level of coverage for which a farmer

pays \$50 or \$100 means that this is fairly not onerous, and the producer is getting something in return.

The main problem we wanted to avoid was we didn't want to be in a situation where we go through the process of changing crop insurance, spending the money on this, creating the legal barriers against an ad hoc disaster program and then find 2 years down the road we have a major drought or a major flood and that a large number of farmers simply have not picked up the catastrophic coverage for whatever reason. Either they were skeptical of a new Government program or the word had not gotten out to them or it was a matter of simple inertia. We wanted to make sure that farmers would be protected.

We understand that 50/60 coverage is very low. For most farmers they really need something better to operate in a responsible way, to operate as a business. So we have provided in this legislation for farmers to get crop insurance at higher levels.

If they purchase crop insurance at a 65 or 75 percent yield level, they would enjoy an out-of-pocket cost reduction of about 10 to 15 percent.

There are a number of other elements to this that I will walk through very quickly. In order to make sure that this coverage is provided in the most convenient way, we are proposing to alter our delivery system. For catastrophic coverage farmers would have a choice. They could purchase it either through a private agent or a county office of USDA.

Higher levels of coverage would remain available only through private agents.

We would provide price competition among agents. We would say that if one company could deliver crop insurance more efficiently than another company, they could pass along the savings to the farmer. We feel this is a way to cut down on overhead costs, and to provide a more economical product.

For those crops that are not covered by crop insurance at all, we would provide a standing disaster program. Currently, crop insurance coverage about 50-odd crops. I have provided a list in my testimony. I have also provided a list of about 20-odd crops that are currently in the pipeline for being added to the system.

For those that are not on any of these lists, we would provide a standing disaster program, similar to the disaster programs that exist today, providing coverage level at that 50-60 level with an area trigger.

The cost of this program, the catastrophic coverage, the subsidies for buyouts, and the standing disaster program, we expect to be about \$1 billion a year, slightly less than \$1 billion a year on top of the current cost of crop insurance. So we would go from being about a \$900 million program to about a \$1.85 billion program.

Conceptually, what we are proposing to do it to take that billion dollars a year in real money that Washington is now spending on ad hoc disaster aid and channeling it into a crop insurance program because we feel that this provides more certainty to farmers and more certainty to taxpayers.

When Secretary Espy announced this program, we made clear at that time that combining crop insurance and disaster aid standing

alone is not enough. There are other things we have to do to make this program workable and to make this program accessible.

The second most important thing that we had to do was to make this program fiscally sound. As you know, over the past 10 to 12 years, the crop insurance program has lost billions of dollars.

We have had a average loss ratio of about 1.47 going back to 1981. What that means is that in an average year we have paid out \$1.47 worth of claims for every dollar we've taken in in premium not counting overhead costs. If we were a private business we would have gone broke long ago.

American taxpayers have sent the message loud and clear: they will not pick up the tab for those kinds of excess losses anymore.

We now have a statutory mandate under the reconciliation bill passed last year to get our loss ratio down to 1.1 by October 1995. For that reason, we are going to be instituting a number of management changes to tighten up our program financially.

This includes more use of APH yields, actual production history yields; expansion of the current nonstandard classification program designed to identify high-risk farmers and adjust their rates; an emphasis on program compliance; continued risk-sharing with the private sector; the implementation of a participant tracking system to back our compliance program; and other steps of that nature to make the program more financially sound.

It will mean that rates may go up in some parts of the country, but we are trying not to rely on rate increases as the major way to improve the financial soundness of the program. We know that that can backfire. We have seen that backfire over the years.

We started raising rates a number of years ago. Harshly, as a result of that, where 5 or 6 years ago most farmers bought crop insurance at a 75-percent yield coverage level, today most farmers buy it at a 65-percent yield coverage level.

I cannot trace that change directly to rate increases, but it would be surprising if that were not a major contributing factor. So that is part of the mix, but we are trying not to make it a major part of the mix.

Finally, the other part of our program is we realize we have to make crop insurance more flexible, more useable, more farmer friendly. That concept implies a lot of steps. We are hoping to put a number of additional options on the table for farmers.

We are going to try to improve more private insurance products developed by the private sector. We are going to make a point to listen better. We are going to look at bringing back a good farmer discount that we had in the past that was dropped several years ago that was a very popular element of the program.

That is basically the program that Secretary Espy laid out about a month ago for crop insurance. We are very glad that the subcommittee has held prompt hearings on it.

We hope that over the next several months it will be something that farmers will look at, that producers will look at, and that will be the subject of a lot of debate.

These changes will only work well if everyone is comfortable with them. We hope that all parts of the agricultural community, farmers, producer groups, lenders, insurance companies, will make a point to study our plan closely and to get involved in the debate.



With that, I will cut off my statement. I would be happy to answer any questions that you have.

[The prepared statement of Mr. Ackerman appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Ackerman. It was the decision of the Chair to go ahead and allow Mr. Ackerman a longer period of time to go over the outline of the crop insurance reform proposal because he is manager of the FCIC, and I thought it was appropriate.

We will, hereafter, however, abide by the 5-minute rule. A red light will come on, and we will limit our questions from the panel to 5-minutes, and future witnesses will also try to meet the 5-minute rule as well.

Mr. Ackerman, would you sum up for us briefly the current financial status of this crop insurance reform proposal. The viability of this entire proposal is dependent on our being able to take the money that is currently being used for ad hoc disaster programs and rechannel it, at least most of it, into crop insurance.

The House has passed a budget resolution. The Senate has done something that does not involve funding for this program. There is a conference committee going on, as I understand.

Would you run through a little bit about the future of this because obviously the one thing that we cannot do is pass a crop insurance reform proposal and then have it so under-funded that the thing simply will not work.

Mr. ACKERMAN. This is a very important point. As you know, Congress is in the process of deliberating on the congressional budget resolution. As I mentioned before and as you mentioned, this program is dependent on rechanneling that billion dollars of ad hoc disaster aid into the crop insurance program.

That requires us to change the budget baselines. Since ad hoc disaster is an off-budget program and crop insurance is an on-budget program, we need to change the agriculture baseline in the congressional budget resolution by about \$1 billion in order to make this change.

The House of Representatives, when it passed its version of the budget resolution several weeks ago, adopted the logic of our position, but with a different number. The baseline was adjusted to the tune of, instead of \$1 billion a year, it was \$700 million a year for the four out years and a smaller amount for the first year. This was based on CBO taking a different view of the numbers from the administration.

In other words, their total is \$3 billion rather than \$5 billion. However, we thought it was a very positive step because the House had adopted the logic of the administration.

On the Senate side, the Senate essentially did not get to the issue. As you know, on the Senate side the main issue and contention on the budget resolution was whether to cut an additional \$26 billion in spending.

We did not want this issue to get in the middle of a crossfire on that larger spending issue, so the Senate is basically neutral on the crop insurance baseline adjustment.

This issue goes to a conference committee, I believe, starting the middle of next week, a House-Senate conference. We are hoping that conference committee will make the full baseline adjustment.

Since the House took one position, the Senate took a different position, this is a conferenceable item, and we are urging the conference to make the full baseline adjustment.

Mr. JOHNSON. At this point it appeared to me that neither house had adequate funds to make this reform viable, and it is going to be imperative that we continue to work with the conference committee members in both the House and the Senate to give us greater access to those ad hoc disaster funds. Otherwise, this reform proposal may, in fact, be stillborn.

It is going to be necessary for producers to purchase buy-up coverage, it would seem to me, in order to be adequately protected.

Is there a risk that too many producers will take their virtually free catastrophic coverage and feel that they are adequately covered and not be aware, as much as they ought, about the need to buy-up greater coverage through the private crop insurance industry?

Mr. ACKERMAN. There is a risk of that. It is a risk that we try to take into account in designing this program. We agree very much with your point that the more farmers who get higher levels of coverage, the more sound the program will be and the better protected those farmers will be.

Catastrophic coverage should not be misunderstood. It is designed to provide a level of payment, simply to replace a disaster payment. No more, no less. That is why it was put like that.

We tried, in designing this program, to create incentives for farmers to buy up. That is why we have the targeted financial incentives for farmers to go to the higher levels.

We have also created incentives for the private insurance companies to sell up. Insurance companies will get a better administrative cost subsidy if they sell up. Agents will get a better commission if they sell up. So the incentives are on both sides.

Yes, there is a risk. We expect that in the first year of this program probably most of the farmers coming in will get that catastrophic coverage simply because it is the easiest way to satisfy the linkage requirements.

However, we are hoping that, over time, once they get into the program, once they go through the mechanics of establishing their AHP yield, produce their records, and learn what the program is about, they will go to those higher levels of coverage.

Particularly, frankly, once we have a year with major losses and Congress does not pass a major disaster relief bill, that will probably be the major cause that gets this program off the ground.

Mr. JOHNSON. The Chair recognizes Representative Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. Ackerman, we had this discussion in committee about the pilot program, and you said you were proceeding with that and were going to have some kind of report by June. Do I remember right?

Mr. ACKERMAN. This is on cost of production coverage?

Mr. PETERSON. Right.



Mr. ACKERMAN. We have asked the Economic Research Service of USDA to do a study on this. We have gotten back some preliminary information on that and we are hoping to make some decision on that in the near future.

Mr. PETERSON. For those folks that are not aware, I have put some report language into a bill. What was it, last year?

Mr. ACKERMAN. Yes. The reconciliation bill.

Mr. PETERSON. Right. Which would require the Department to look at a pilot program in North Dakota, Minnesota and Mississippi, looking at some kind of revenue insurance based on revenue or cost of production. Kind of like hail insurance, a different concept.

They are moving ahead with that. If we can get it together, people might have the opportunity to opt into that pilot program in those three States, which I think could be useful.

Yesterday, I had some meetings in my district with different folks. On this mandatory issue, in Sterns County, for example, when we didn't have a lot of people proving yields, they have a real problem with their bases being way down.

They think, at looking at the preliminary situation with your proposal, that given the circumstance with their bases and how they are participating in farm programs now, that this might have the effect of driving people out of the farm program in Sterns County. That was pretty much consensus because their bases are so low, their corn bases, that it is not going to be a good deal.

I guess maybe that is backwards though. You can be in the program and you don't have to buy insurance.

Mr. ACKERMAN. That's correct.

Mr. PETERSON. But then they are left with no coverage is how they are looking at it.

I guess the question I am asking is, is there some way that we can go in and look at particular situations where they have gotten trapped? A situation where the basis is not realistic as to what it really is?

The other problem we have in that county is that they feed a lot of that corn, and there is really—from what I can tell talking to them yesterday—there is no mechanism to really account for that in a good way. They are having a lot of trouble accounting for the corn that is fed and getting credit for it.

So I think in Sterns and Morrison Counties, some of those kind of counties where you have got a lot of livestock and dairy and so forth, I think we have a different kind of a problem that we haven't really focused in on. I would like to visit with you about that or your people because I think we are going to cause some problems out there if we don't address this some how or another.

Mr. ACKERMAN. Let me comment just briefly on this.

First of all, as we go through the hearing process on this legislation, it is very important that we make—from our point of view as well—that we make sure that this program works in different parts of the country, so we very much want to look at these particular counties to make sure that the formula works, that the program works.

So we will be very eager to talk to you about that to make sure we are on the same wavelength, that we will be able to accommodate that situation.

Just to be clear on the bases, on the yields, the way we are proposing to structure this catastrophic coverage, it would be based on an individual's APH yield, actual production history yield.

So you would bring in records, establish your own yield, and that would be the basis for coverage, rather than using a program yield or a county average yield.

Mr. PETERSON. What do they have to bring in? Can they bring farm management records?

Mr. ACKERMAN. Yes. There is a fair amount of flexibility on what they can bring in.

It is true that for the situations with farmer who feed their corn, who raise corn and then feed it on their property, who don't sell it, it is sometimes more difficult to get records. In those cases, we have to be more flexible, and we may want to look again within FCIC to make sure that we we've provided enough flexibility for that.

Clearly, we want those farmers to be using actual yields as well because they generally get a better deal based on actual yields than program yields.

We have taken some steps to allow farmers to use certain evidences of what they have grown. For instance, the number of bins that they use, the sizes of bins. Things like that to show their yields. If we need to provide better avenues to show their yields, we can look at doing that, but using actual yields generally provides a better outcome.

If I could say one more point without going too far into the red light. There are a number of cases where going to actual yields does place farmers at a disadvantage because there are some parts of the country where yields simply have not been very good the past couple of years. We have had a disaster year this year with the flood. There have been other recent disaster years as well.

One change that we are going to have to make in the APH actual production history program is a catastrophic yield adjustment for at least 1 year, because there are simply too many areas where farmers have had catastrophic years and their yields are inappropriately low.

The APH program is designed to come up with a realistic expectation of what a farmer on a particular piece of land is going to produce. A zero yield for a given year is just as unrealistic a projection as an inflated yield in an inflated year so that is one change that we are going to have to make.

Mr. JOHNSON. Representative Minge.

Mr. MINGE. I had a couple of questions, Mr. Ackerman. First, I've noticed that some farmers in 1993 were in the 0/92 program which meant that they plowed up their corn and they had no yield, and it was not counted as a base year in calculating the average production on that farm.

Other farmers decided not to plow up the crop and instead harvested it, and they may have received, let's say, 35 bushels to an acre and that was then considered one of the years.

Is there a way that you can reconcile the different ways that farmers use the farm program in a year like we had last year and not penalize those that tried to harvest a crop and minimize those losses as against those that went into 0/92 and eliminate their crop?

Mr. ACKERMAN. It is an interesting question on this. I may say I may ask our chief actuary to comment.

As a general matter, yes, obviously, we need to do that. One of the things that is going on parallel to this reform is that, within USDA, we are in the midst of a reorganization where we are going to be merged into ASCS to become a single agency.

As we do that we are going to have to align the programs to make sure that a farmer is not disadvantaged being in one as opposed to the other.

In the particular situation of the 0/92 versus crop insurance, I understand there has been some confusion about how those rules work.

Let me introduce Jim Driscoll who is the Chief Actuary of the Federal Crop Insurance Corporation.

Mr. DRISCOLL. Mr. Minge, the point you raised is interesting. It is one I think we will have to handle through our catastrophic yield adjustment procedure that we are now developing that Mr. Ackerman talked about just a moment ago.

I am not sure exactly how it will be brought in at this time, but I think our goal would be to recognize what the crop would have produced in a normal year. That is what we are trying to do through this cat yield procedure, not to count the zeros or the real low yield, but with some floor in there.

Mr. MINGE. So the goal is to look for what is a normal year, however, those figures are developed, and not let a catastrophic year, whether you are in a program or not, in a program like 0/92, skew the results?

Mr. ACKERMAN. Correct.

Mr. MINGE. Well, it feels good. I hope that it is.

The second question I have deals with the problem of farmers who, so to speak, farm Federal crop insurance. I haven't heard of that as a problem in our area as much as it is in other States to the south and east of here.

It concerns me that a catastrophic program where we have 50 percent coverage at 60 percent of the projected price may actually be the type of program that those farmers in the Southern and Eastern States find to their liking because they can essentially farm Federal crop insurance, whereas the farmers in our area very rarely would experience a 50 percent crop loss. Maybe last year was the first year in the history of many of our counties that they had a crop loss at that level.

How do you propose to work with this new proposal to avoid a situation where certain sections of the country will continue to farm Federal crop insurance, to the disadvantage of other sections of the country who are trying to simply farm based on what the economy indicates is a decent result?

Mr. ACKERMAN. I think your point is a very important one. If we are going to expand crop insurance from 30 percent participation



to 80 percent, we have to be able to guarantee this program is run with integrity.

Program compliance has to be one of our paramount objectives.

In the past we have had problems with program compliance. We now have a compliance staff at FCIC of about 80 people nationwide, which is frankly not enough. We have a lot of territory to cover.

In some parts of the country there have been indictments against people for not only farming the program but committing fraud with respect to the program. This is something that we have to crack down on.

We are taking a number of steps to do this, and it is something that we have to do more of. This is one area where our merger into ASCS may turn out to be very helpful because we can share resources with ASCS's compliance operation. We can have access to their county offices on the ground where they are often closer to the scene than we are, in order to help make sure that people are working with this program in the proper ways.

We are also planning to sit down with the crop insurance companies because they have a stake in this also. They have a financial stake in this. When there are losses in the program, they take losses.

This year I think that fact was brought home more than any other year. Collectively, the private crop insurance companies had some very significant losses.

We also intend to work with the Inspector General's office of USDA.

Clearly, this question of program compliance is something we have to put on a front burner if we are going to be credible in this proposal.

Mr. PETERSON. Thank you. The Chairman didn't tell me if he wanted us to do another round, but I am going to take the prerogative of the Chair and ask.

One of the other things that came up in my meeting yesterday focused on this \$50 per crop per county deal and whether it would make more sense to base this on so much per acre, some small amount per acre.

My question is did you look at that issue and if you did, why did you opt for the system that you've set up? I assume you probably did this to try to get the southerners, who are not wild about this idea, to come into the program, but I guess I would just be curious as to whether that went through your deliberation or not.

Mr. ACKERMAN. We did look at that and that is still a point that comes up in quite a lot of meetings.

The reason we chose a \$50 processing fee rather than a dollar per acre amount was we wanted to make it clear that this is not premium that is being paid.

The government is paying the premium, much, like I said, as a rainy day fund. What the farmer is paying is the cost of filing the papers. That is why a processing fee of a set amount makes sense rather than trying to come up with a formula based on the size of the farm.

It is true that if a farm is big enough to be in two or three counties the fee can be raised to several hundreds of dollars, but within a county it is \$50 no matter on the size.

The reason that we wanted to pick a low number like that was because of the mandatory linkage. We felt that the mandatory linkage was very important for this program to work right and that if that was going to be acceptable in a broad way we needed to have a processing fee that was reasonable.

Mr. PETERSON. I guess the Chairman has a couple of more questions, so I will just follow-up.

I want to visit with your actuary about what the numbers are and so forth. On the top coverages, 85, 75 and 65, you have some buy down that is going to be made by the government in the premiums.

It is unclear to me—maybe it says in there and I just missed it—do you have actual amounts on that? What are the levels at each level?

Mr. ACKERMAN. If you buy 65 percent yield coverage, the way our proposal is written right now you would get an out-of-pocket discount of about 15 to 16 percent.

If you get 75 percent level coverage, you would get an out-of-pocket discount of about 8 or 9 percent.

Mr. PETERSON. What about 85 percent?

Mr. ACKERMAN. Eighty-five percent we are currently going to offer, and under this legislation we would have the authority to begin offering it. We have not run the numbers on it yet because it is not something that comes through that.

Mr. PETERSON. If you can fit this in, would you envision giving some kind of discount on that as well?

Mr. ACKERMAN. Yes. The way the formula works that downward slope would probably continue.

Mr. PETERSON. Why don't you discount the levels the same as the 65 percent and 75 percent? Is there some reason why you have different discount levels?

Mr. ACKERMAN. The reason we did that is because of the way the formula runs.

I will tell you frankly that since we have sent this bill forward several people have made the suggestion of why not take some of the money we are proposing to spend at the 65 percent level, and spend it at the 75 percent level, in order to make that more attractive.

Mr. PETERSON. Yes. That is what I was thinking. Are you looking at that?

Mr. ACKERMAN. Yes.

Mr. PETERSON. Also, at the 85 percent level the discussion came up in my meeting that there should be some consideration given there as well.

To some extent I think this ties into the yield question and the base question because what people are getting at is trying to figure out some way to make a system that works.

You can come at it two different ways. You can come at it from the base or from the premium level, so I am glad to hear you are looking at that.

The chairman is back. I guess he has some additional questions.



Thank you.

Mr. JOHNSON. Thank you for taking over, Representative Peterson.

Are there any further questions by members of the panel?

Well, Thank you, Mr. Ackerman, for your testimony and your response to our questions, and we will turn now to our second panel.

Mr. ACKERMAN. Thank you.

Mr. JOHNSON. The second panel is comprised of Mr. Al Christopherson who is President of the Minnesota Farm Bureau Federation of Pennock, Minnesota; Mr. Richard Peterson who is vice president of the Minnesota Corn Growers on behalf of the Minnesota corn growers and soybean producers of Mountain Lake, Minnesota; Mr. Frances Buschette who is a member of the Minnesota Wheat Growers of Renville, Minnesota; Mr. Gerald Lacey who is president of the National Barley Growers Association; and Mr. Dave Frederickson who is president of the Minnesota Farmers Union of Murdock, Minnesota.

We welcome you to this subcommittee hearing. We are very grateful for your willingness to share with us your insights and where this country should be going relative to crop insurance and disaster programs in general.

Your full statements are received for the record of the subcommittee, but you may want to summarize. Whatever you are most comfortable with. Try to keep your statement within 5 minutes.

We will proceed in order. We will have each of you testify first prior to members of the committee asking you questions.

We will begin with Mr. Al Christopherson.

#### **STATEMENT OF AL CHRISTOPHERSON, PRESIDENT, MINNESOTA FARM BUREAU FEDERATION**

Mr. CHRISTOPHERSON. Thank you. I want to thank you for the opportunity to comment on Federal crop insurance reform and its impact on Minnesota farmers.

I certainly would like to commend the subcommittee Chairman Johnson and Representatives Minge and Peterson for bringing this important hearing to Minnesota to hear from farmers firsthand.

I would also like to commend the Clinton administration for recognizing the tremendous need for reform of the Federal crop insurance disaster programs.

With a national utilization rate of less than 30 percent, the annual average disaster payments of over \$1 billion a year, the time has come to completely overhaul a system that isn't working for either farmers or taxpayers.

Secretary Espy has accurately commented that the current programs high premiums and spotted coverage combined with a disaster program to virtually guarantee low participation in the program.

The time to reform the system in a serious and comprehensive manner is long overdue. The existing combination of inadequate coverage in disaster programs satisfy no one who is involved.

The stated goal of the Clinton reform proposal is to boost participation in the crop insurance program by providing adequate cov-

erage to producers and thereby eliminating the need for emergency disaster assistance.

The Farm Bureau fully agrees with this central goal, and are committed to helping this restructuring occur.

Farm Bureau policy states that crop disaster programs and crop insurance should be combined into a single voluntary program designed to obtain the greatest amount of participation. We can all agree that today's pattern should be replaced with a more common sense and responsible model.

As you know, the Clinton plan compels farmers to purchase the minimum amount of Federal insurance on eligible crops before participating in any USDA program.

This mandatory part of the program is our most fundamental and practical and philosophical objection to the reform plan. An unattractive crop insurance policy cannot be made to look pretty to farmers simply by mandating programs participation.

This avoidance of the crop insurance program's basic inadequacies will not result in a long-term solution to the problem. We need a program that makes crop insurance a good idea in the free marketplace.

The shortcut provided by mandated coverage virtually assures that budgetary and other pressures will continue to force a Federal crop insurance program that simply does not make sense economically to the typical farmer. This is precisely why participation is so low nationwide today.

The mandatory provisions combined with a cost that is bound to grow with time and budgetary pressures also establishes a state control mechanism that could become extremely costly to farmers.

Although the fees for catastrophic coverage are very limited in the initial proposal, fiscal reality suggests that this pricing system may not remain inexpensive very long.

Our policy has consistently opposed mandatory linkages between crop insurance and farm program eligibility. The most cross-compliance restriction and mandatory conditions we add to Federal programs, the less basic business decisions are left up to the farmer in the marketplace.

In addition, our members oppose the programs' continued reliance on yield as the trigger mechanism for insurance payout. Coverage based on dollars per acre to us seem to make more sense. Reliance on yield as a determinant tends to skew the program in favor of high-risk production acres, and makes it much more likely that gaps in coverage will exist.

Although we recognize that full consideration of crop insurance reform may not occur until the 1995 farm bill, we pledge our commitment to work with the administration and Congress to design a workable program that meets all of our goals.

I am convinced that all parties can come together to fix a system that is clearly broken. Again, however, in order to do that we must design an insurance program that good business people will want to purchase, and we don't feel that wider mandated coverage will eliminate the possibilities and further complicates the maze of Government requirements.

[The prepared statement of Al Christopherson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Christopherson.  
Mr. Peterson.

**STATEMENT OF RICHARD PETERSON ON BEHALF OF THE MINNESOTA CORN GROWERS ASSOCIATION AND THE MINNESOTA SOYBEAN GROWERS ASSOCIATION**

Mr. PETERSON. I am Richard Peterson. I am representing the Minnesota Corn Growers and the Minnesota Soybean Growers here today.

I want to thank the committee for coming to southern Minnesota to hear our concerns regarding Federal crop insurance reform.

I farm just east of here in Jackson County.

I would also like to introduce the State director of the Minnesota Soybean Association who is here today in the audience, Leroy Kellenberg from Beaver Creek.

Mr. JOHNSON. Welcome to the subcommittee.

Mr. PETERSON. We have put our written statement together and you have that.

Our main concern would be the top end coverage. I have had Federal crop insurance over the years. From 1986 to 1992 we have had the 1988 drought and also 1991, which was an extremely wet year.

The 65 percent coverage just doesn't do it. We come up with a 65 percent crop, but with today's prices it is just not enough to cover expenses.

What we would really like to stress is that we can get that 75 percent coverage for at least what it costs us today for the 65 percent coverage, and that the 85 percent coverage should be available to farmers.

There is another concern we have with the group risk plan. The problem with that, using county averages, is that the soil types from one farm to another let alone from one side of the county to the other, varies. And I don't think that it would be a fair program for the farmers.

The production needs to be based on the yields coming off of the particular farm that is insured.

Thank you.

[The prepared statement of Richard Peterson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Peterson.

We will turn now to Mr. Buschette.

**STATEMENT OF FRANCIS BUSCHETTE ON BEHALF OF THE MINNESOTA ASSOCIATION OF WHEAT GROWERS**

Mr. BUSCHETTE. Thank you. My name is Francis Buschette and I farm near Renville, Minnesota and raise wheat, sugar beets, corn and soybeans.

I am testifying on behalf of the Minnesota Association of Wheat Growers. We appreciate this opportunity to express our views on the proposed Federal crop insurance reform and whether it could adequately replace the disaster program.

Let me begin by saying that the Minnesota Association of Wheat Growers would support a significantly improved better crop insurance program over the disaster programs we have had in the past.



We recognize the funding problems associated with having both an improved crop insurance program and a standing disaster program. However, we believe an adequate, affordable and proven new insurance program should be operational before all disaster authority is abandoned.

A strong basis for development of a viable new program is on the drawing board, but until such a time that a new regime of yield and price risk protection is proven to be effective, we urge continued standby authority for disaster relief programs.

On the specifics of crop insurance reform, we strongly support the actual production history based on 4 years. However, a high priority for FCIC should be to develop and implement a catastrophic yield clause. This would stop the actual production history yield reductions for producers in a region that has experienced abnormally high losses during the 4 years of the APH.

This need is very evident in Minnesota when you consider that the loss is due to a 100-year flood will account for 25 percent of an individual's APH.

On the positive side, the decision to use individual APH as a base for catastrophic yield coverage instead of an average or ASCS yield is very important and it is a welcomed improvement over the disaster program.

In another comparison, we find that the disaster program has advantage over Federal crop insurance when it comes to de minimus yields. The lack of a de minimus yield for crop insurance has been a glaring negative factor for growers, especially in light of ASCS implementing a de minimus yield in last year's disaster program. This inequality needs to be corrected.

For many wheat producers, the catastrophic coverage will not be adequate to meet their risk management needs, so they will want to purchase additional insurance. The reform proposal with additional funding should provide reductions in premiums at the higher coverage levels.

This would be very important for long-term crop insurance customers who will want to see benefits from reform.

One possible benefit could be reduced premiums at the 65 and 75 percent coverage levels under the proposed reforms. Nevertheless, what effect this reform proposal will actually have on premiums for increased coverage is something we will want to know.

Finally, we believe that additional premium subsidies should be extended to the 65 and 75 percent coverage levels, which would help make this reform package adequate enough to replace disaster programs.

Thank you for this opportunity to express our views.

[The prepared statement of Mr. Buschette appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Buschette. You are hearing evidence that our part of the country is not exclusively Johnsons, Christophersons, Petersons and Fredericksons. It's good to have you here.

Mr. Lacey.

## STATEMENT OF GERALD LACEY, PRESIDENT OF NATIONAL BARLEY GROWERS ASSOCIATION

Mr. LACEY. Good morning. My name is Gerald Lacey and I grow barley, wheat and sugar beets with my son on a farm near Campbell. I'm currently serving as president of the National Barley Growers Association. It's an honor for me to be here this morning and testify in front of this subcommittee.

We as farmers understand that reform is needed to keep abreast with the ever-changing world. We also understand the difference between meaningful reform and budget-driven political reform. It's difficult for me to testify on this proposal when the Senate just voted to reduce expenditures for crop insurance.

I would hope that you, as elected officials, would put aside the political bickering and assist us producers in establishing a Federal crop insurance policy that would adequately protect us from the whimsical ways of Mother Nature. I would like to address three main concerns in my testimony this morning.

First of all, I would like to address the percentage of subsidy for the 65, 75 and the 85 percent price protection; second, consider allowing ASCS to possibly sell the coverage; third, to support a gross revenue insurance pilot program for Minnesota, Mississippi and North Dakota.

We agree that catastrophic coverage must be offered to producers in order to get participation up to the level where everyone will feel comfortable that there will be no more ad hoc disaster bills. We would suggest increasing the rate of the subsidy provided for enrollment in the 65, also the 75, and in the 85 percent level of price protection. Producers are being pushed into higher price selections because of the constant increase in the cost of production; also, as it effects our yield, our yield history in these losses that we've had over the last few years.

I have taken out Federal crop insurance from my agent since 1989. During this time, I had no way to shop around, as I do for hail. For hail insurance, there seems to be some competition and there is no Government guaranteed commission. I would like to suggest that we allow the ASCS offices to opportunity to sell Federal crop insurance policies. This is not new or unique, but something they have handled in the past.

I would also suggest that the ASCS offices be allowed to charge a 10-percent fee to cover their costs of doing business. Perhaps this could be done on a pilot project basis and perhaps even on a bidding basis by the private insurance industries to compete with the ASCS.

I make this suggestion in the hopes that the insurance companies will be challenged to make their money competitively in the market, not through a controlled, guaranteed system. The burden of balancing the budget should not have to be borne solely by the producers and not by the rest of the industry.

Third, a pilot program that has been mentioned already this morning. As a representative of the Minnesota Barley Growers Association, I would like to speak in support of introducing a gross revenue insurance program on a trial basis in Minnesota, Mississippi, and North Dakota. My thoughts behind this are fairly simple.



Lenders are not at all concerned about how many bushels a producer grows on an acre, but rather how many dollars per acre that farmer produces. We would like to see if we couldn't devise a program that would have a farmer insure his gross revenue.

Although many of the technical points would have to be worked out, I envision a program whereby a producer would be able to insure his minimum gross income based on perhaps his last 5 years average gross income as shown on his individual tax form.

I'd like to thank the subcommittee for allowing us to testify this morning. I'd be happy to answer any questions.

[The prepared statement of Mr. Lacey appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Lacey. Finally, Mr. Frederickson.

### **STATEMENT OF DAVE FREDERICKSON, PRESIDENT, MINNESOTA FARMERS UNION**

Mr. FREDERICKSON. Thank you, Mr. Chairman. I want to point out that even though Mr. Buschette's name is different from the rest of us, he has been influenced by the Scandinavians in his area. I also want to thank you, Chairman Johnson, and members of the subcommittee for your willingness to come into Representative Minge's district, one of the hardest hit districts by the flooding in 1983.

I've spent the last few days reading about Federal crop insurance, to the point where my eyes have started to glaze over, most recently about 10:00 last night. Normally, all I do is buy it. When I started to farm in 1974, which is coming up on 20 years now, I asked my dad if it would be a good idea if I buy this stuff called Federal crop insurance and he informed me that it probably wasn't such a good idea because he had farmed all of his life and he never got a red cent out of them.

All he had to do was pay the premium and being a smart-aleck kid, I thought, well, maybe I should try to buy some of this stuff, and I have over the years bought it on and off again. I chose a rather smart move, I thought, in 1993 to drop the coverage. I laughed a little bit about that, too, when I dropped it, but then I got pretty panicky about halfway through the summer.

But then as it turned out, even with the worst flooding in my history and I'm sure the history of many of the people in this room, we in Swift came in with about half a crop. So at the 50 percent level, I, with the yield I had of about 52 bushel an acre, still would not have ended up receiving the cost of that premium, and, in this case, that's something in excess of \$3,000 had I gone in last year.

My point here, I guess, is that if you can provide the—and, again, to the questions that you asked, Chairman Johnson, in your letter. The adequacy of catastrophic coverage, I think, is a wonderful idea, because I could take that \$3,000 that I would have spent last year or \$4,000 or whatever it might be and buy up. I think that's what this whole issue is getting to, the opportunity for us to take the money that we normally would have invested in a Federal crop program and give us the opportunity to buy up, thus making this program actuarially sound, hopefully.

You have, Mr. Chairman and members, a copy of the testimony in front of you. For the sake of brevity, I'll just try to quickly sum

up the points that I tried to address in response to the letter of March 17.

The adequacy of catastrophic coverage—and, by the way, I also want to take the opportunity to thank you for the hard work that you put into the ad hoc disaster program of 1993. We hear a lot of talk about the fact that we don't want those again. I'll tell you what. In my home county and, frankly, in the State of Minnesota, without that ad hoc program, several farmers would have been in deep trouble as we move into the 1994 planting season.

So I want to personally thank you and I know from the members of the Minnesota Farmers Union for the hard work that I know all of you put into that program.

We think, if funding permits, it would be helpful to increase the 60 percent to a figure closer to 100 percent of target price, still using the 50 percent deductibility. The processing fee; we find the processing fee to be very reasonable and, again, it addresses the issue of processing and not anything other than that.

Mandatory coverage; the National Farmers Union and the Minnesota Farmers Union supports making the coverage mandatory to farm program participants. However, the farmers and certainly I may have a different position if the processing fee were to be increased. The dual delivery system offers producers the option of where to obtain the catastrophic coverage. We support that.

A key point here, the use of actual production history; the use of actual production history would make crop insurance a better product for producers who are above the county average and would also help in preventing the farmers from farming the program, an issue that you and Mr. Ackerman addressed, and Mr. Minge and also Mr. Peterson early on.

The requirement to insure all land in the county for a particular crop. It is appropriate to require a producer to include all land in a county for a particular crop. However, the dryland crops, such as wheat, should not be averaged with irrigated crops. These should be a separate unit.

Adequacy of the buy-up coverage for insurable crops. The buy-up coverage should extend higher than the 75 percent election rate, we feel. Provisions for noninsured crops. My sense of this is the question might have been a little unclear. Does noninsured mean no insurance is available or that the producer chooses not to purchase insurance? We'd recommend that the producer be required to establish production history before being allowed to insure a crop that had never been planted in the previous years. This would guard against, again, producers farming the program.

The amount of premium subsidies at different levels of coverage. If the goal is to encourage producers to purchase adequate coverage, then subsidy should be offered as a percent of the premium instead of just a flat dollar amount for current subsidy, which is the same whether the producer purchases coverage at 65 or 75 percent level and encourages producers to purchase only the 65 percent level of coverage.

I see the light is on. You have, again, in your packet the testimony of the Minnesota Farmers Union. Thank you for the opportunity.

[The prepared statement of Mr. Frederickson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Frederickson, for your testimony. I appreciate the insights of all members of this panel. I think they're very useful to us and to our subcommittee.

Mr. Christopherson, I think a lot of us share, to one degree or another, your concern about mandatory programs. Whenever the word "mandate" comes up, I think all of us sit up a little straighter because it's not something that we are ever very enthusiastic about.

I think you can understand the balancing act that necessarily has to go on here. The crop insurance is mandatory only if you take taxpayer subsidies in the first place because you belong to the farm program, and the taxpayers are, in effect, insisting that if you take their dollars, then you also must participate in a program that will free them of the pressures for ad hoc disaster programs in the future.

The other concern is that if we have too little a sign-up, it may destroy the viability of the entire system because it's going to create tremendous pressures than to step back and do something to help all these people out.

So the bad news is it's mandatory. The good news it's virtually free. But I would agree with you that if we do this, we'd better keep a close eye on the tendency to start with a \$50 sign-up charge and then have it inflate and get out of hand and after a while become a very substantial cost.

I guess that's more a comment than a question. There has been some discussion about, well, taking away the mandatory nature of it, making people come in with a waiver statement or something of that kind, I don't know if that would have any interest to you.

Mr. CHRISTOPHERSON. Let me comment just a little bit about the mandatory portion. You probably alluded to a clue to the problem when you made the comment about the Scandinavian heritage of this table here. We tend to be somewhat obstinate, some of us more than others.

Certainly, the mandatory portion, I guess, bothers us to the extent that it does take away one more of the decisions that farmers have to make. And while I recognize the consequences are not great, I guess as the principal of it, we are not required to buy hail insurance, we are not required to buy fire insurance, et cetera, but they are prudent economic decisions that most farmers, I think, make.

So I guess that is where we're coming from with regard to the mandatory aspect of it. I would be hard pressed to make a very strong argument against it, other than on principal.

Mr. JOHNSON. The remaining members of the panel, I think, all raised a very legitimate point about the concern that there has to be some support there for people to buy up, to get more than the catastrophic coverage. Otherwise, it's going to remain to be an inadequate risk management tool.

Again, the balancing act we have is how much money do we have. It's going to require a substantial amount of the money to provide that virtually free catastrophic coverage. That leaves only



a modest amount of money to help subsidize the higher levels of coverage.

But I think all of you raise a very good point that we need to do all that we can to encourage the higher signup.

Mr. Peterson, do you have any particular problem with the dual delivery system, where you can buy the whole thing from your insurance agent or you can buy just the catastrophic from the ASCS office?

Mr. RICHARD PETERSON. I guess the only problem we've got is what it's going to cost the Government to train these employees in the ASCS or the Farm Service offices and then how much more paperwork it's going to create for them.

Maybe what we should do is instead of training them to do what the private agents are doing already is to use that money to subsidize that 75 or 85 percent coverage.

Mr. JOHNSON. That's a possible tradeoff. Part of the problem is that, at least initially, in many parts of the country, as Mr. Ackerman has noted, there simply are not enough agents out there. Our part of the country tends to be fairly well served with a lot of well trained professional crop insurance agents. There are some parts of the country where that simply is not true.

If we're going to go from a 30 percent sign-up to an 80 percent sign-up in one huge leap, we may need the resources of both ASCS or the FSA and the crop insurance industry to deliver that. But I think you raise a good point about how we're going to have to look very carefully about how to best utilize each additional dollar available, because to the degree possible, we want to spend it delivering a quality product, not in reinventing or creating more bureaucracy and administrative expense. That's a good point.

I will honor my own red light promises and recognize Mr. Peterson.

Mr. PETERSON of Minnesota. Thank you, Mr. Chairman. Mr. Lacey, you were suggesting in here raising the subsidy rates on the 65, 75 and 85. Do you have an idea how we would do this, where the money would come from? Have you folks thought that through at all?

Mr. LACEY. First of all, we need that money that comes from the disaster. That's the first piece that we need in order to make this thing work. Then I think we need to go back to the disaster part of it, the free part of it. I don't see that as being fair, and I will tell you why. The person with 100 acres of barley and the person with 2,000 acres of barley are going to be paying the very same administrative expense, so-called, for a whole lot more coverage.

I don't think that's needed nor fair. I think that that large farmer producer can afford to pay something to subsidize that higher coverage that we all need in the first place. So I guess that's where I would attack that, putting some kind of a fee, and I think that will have to be—that's the reason we've got all the expertise that we've got in the Department and that can be figured out.

But whatever it takes to make a more level percentage of subsidy to the 65, 75 and the 85, I truly believe that there's a lot of us out there that do need the 85 to satisfy our bankers.



Mr. PETERSON of Minnesota. How do the rest of you feel about that idea? I think, Mr. Frederickson, you were pretty clear that you don't think much of that idea, I gathered from your testimony.

That you pay so much per acre or something like that. That's what Mr. Lacey was alluding to. But using that money to buy down the higher levels. I sense that you folks don't think that's a good idea.

Mr. FREDERICKSON. Mr. Chairman, Representative Peterson, we didn't necessarily see that as a problem. We recognize it as a processing fee. However, I will say that some of our members up in Mr. Lacey's area have indicated a concern on the large farm versus the small farm, saying why is it that the large operator would get the benefit of this for \$50 or \$100 and I would get the same thing if I only raised 100 acres of wheat.

So I would be remiss if I didn't point that out. But in the main, the Minnesota Farmers Union has not seen that as a huge problem, understanding it as a processing fee. So I guess we don't have a problem.

Mr. PETERSON of Minnesota. Do any of the rest of you have any ideas? Are you for or against the idea of charging so much per acre and then using that money to buy down the top?

Mr. BUSCHETTE. Speaking for myself and not for the Minnesota Wheat Growers, I would have no problem with a small fee and helping to do that.

Mr. RICHARD PETERSON. I guess the Minnesota Corn Growers and the Soybean Growers, we've felt that it should be no hardship for somebody to be paying \$100 for the coverage. We don't have a problem with it the way it is.

Mr. PETERSON of Minnesota. What about if we put a 50-cents-an-acre charge on, then what? And then use that money to buy down the top prices.

Mr. RICHARD PETERSON. That would be all right, too. I have had comments when I brought this up to farmers and there has been some of that feeling that the large producer is getting by cheaper than the small one. I don't think that would be a problem, either, that way if it was at a low enough rate.

Mr. PETERSON of Minnesota. Do you think that would force people out of the system?

Mr. RICHARD PETERSON. I really think what we need is if we're going to take the ad hoc disaster away from the farmer, he's not going to make any money if he has a crop loss at 50 or even 65 percent. I could testify for that. Since 1986, my brother and I took insurance up until 1992. We spent \$27,000 for Federal crop insurance and we had a 65 percent crop in 1988 with the drought and then 1991 was wet, and we got \$2,100 back out of Federal crop insurance.

I must say that 65 percent of the crop didn't pay the bill.

Mr. PETERSON of Minnesota. Could I get—

Mr. JOHNSON. Follow that up, Mr. Peterson.

Mr. PETERSON of Minnesota. No. I just wanted to get Mr. Christopherson's reaction.

Mr. CHRISTOPHERSON. We would have, I guess, no position on that at this point. It's something that we have not discussed, other than I suspect we would lean on the side of fiscal and sound under-

writing. So I guess maybe from that standpoint, we might be supportive of that type of thing.

Mr. PETERSON of Minnesota. The actuary of the Department is here someplace. Could you run the numbers of how much we would raise if we charged 50 cents an acre versus what we would raise with this \$50 processing fee and get that to my office sometime when you can in the next couple to three weeks? I'd just be interested in how much money that is and just for my own curiosity, if you can do that. Thank you.

Mr. JOHNSON. You gentlemen recognize that you make a change away from a processing fee to a different kind of concept, but it is something the Committee should consider. Mr. Minge.

Mr. MINGE. I'd like to certainly welcome the panel here since several of them are people that I've known for an extended period of time. Mr. Frederickson, at one point, represented me and I guess what comes around goes around. Well, we're still evaluating your representation.

We have talked here this morning about the interplay between crop insurance and disaster programs and the mandatory fee, things such as that. I would like to shift the focus a little bit to the problems that we've had with Federal crop insurance, especially as they were highlighted in 1993 and possibly problems that you identified earlier.

We've had preventive planting or the lack of preventive planting coverage. That has been corrected. Some of the harshness of late planting penalties have been lifted.

I'd like to ask each of you to just give what you think are the most significant or what is the most significant surviving problem with the mechanics or the policy for Federal crop insurance that have not been touched upon in this otherwise fairly general discussion about disaster and Federal crop insurance. Start with Mr. Christopherson.

Mr. CHRISTOPHERSON. I guess just offhand, the overriding issue, as I see it, is the yields and the evidence, I guess, given by several of the panel members here that really what it boils down to is not a sound economic decision. And while we have touched upon that, that is the overriding issue and that is the overriding issue along with the fact that we have the ad hoc disaster programs that come along that I think make the program not what it ought to be.

Mr. MINGE. Mr. Peterson.

Mr. RICHARD PETERSON. I guess as far as your test on late planting or preventive planting and then the planting dates, the improvements that were made to the 1994 crop season is going to be helpful. But I still think we need higher coverage. Mr. Ackerman said that the Federal Government wants to have 80 to 90 percent participation. The only way you're going to get that is get that higher coverage affordable.

Mr. MINGE. Are you suggesting that if we're going to subsidize Federal crop insurance to the tune of more than \$1.5 billion a year, rolling disaster and Federal crop together, that instead of providing catastrophic policy that's essentially free, just a sign-up fee, that we ought to look at subsidizing Federal crop insurance throughout the levels of coverage and charging a substantially higher fee for

the catastrophic coverage that would reflect the cost for that catastrophic coverage?

Mr. RICHARD PETERSON. There is one thing. Being we're getting that catastrophic coverage basically for just a fee, it should help some. It's just that the whole problem with the crop insurance now is what I just told you, that it's not hard to see why a farmer wasn't taking it. The 65 percent is the only one you could really afford. The 75 was too expensive.

And when it got right down to it, it was poor in terms of coverage. That's why I stress that we need a higher coverage available.

Mr. MINGE. Thank you. Mr. Buschette.

Mr. BUSCHETTE. Mr. Minge, I guess I would have to follow along the same lines as Mr. Christopherson. When you've had 2 or 3 years of disaster in a row, your yields get so low that even covering insurance, you're not protecting anything as far as your banker is concerned.

You get down to where your total package isn't much at all. So there has to be some way of, when there is a disaster, maybe to go back to a county yield or something for that year to plug that in instead of going down to a 65 percent. Otherwise, you're not getting enough coverage for what you're buying.

Mr. MINGE. Thank you. Mr. Lacey.

Mr. LACEY. I think one of the real hangups with the program, at least in my area, is now we're going to have our Social Security number attached to the application so that they can find all those bad apples. I think we're going to find that those bad apples that are costing the system so much are in bunches. Every one of those bunches is being fostered by a bad apple agent.

It takes cooperation in order to make that thing work. We're finding that and I hear rumors that there's going to be more investigation back up the line. There's a percentage that want to work the system and it's costing us all dearly.

Mr. MINGE. Mr. Frederickson.

Mr. FREDERICKSON. Mr. Chairman, Mr. Minge, what was the question?

Mr. MINGE. What feature of Federal crop insurance do you feel needs to be improved in order to make the product a more attractive product for farmers and a better product to serve your needs?

Mr. FREDERICKSON. Mr. Chairman, Mr. Minge, I commend the administration on the work that they have done on this reform package. I think they're right on the money. Again, not to belabor the point, but the points that are being referenced around this table—make it affordable and when you buy insurance—when I buy car insurance, I want it to be there even when my daughter runs into a post.

And you know what? It's been there. And I want the same results from Federal crop insurance. If I pay the money for the buy-up provision, I want it to be there when I need it. I recognize that the 50 percent coverage ought to create peace of mind and I think it does. But I think our job and, again, your job is to, again, make it actuarially sound, whatever that might be.

To provide that incentive for buy-up is probably the key critical thing and using the yields that we've established on our individual



farms as opposed to county averages. I commend the administration for recognizing that. I find it difficult to tear this proposal apart. I think it's probably 98 percent sound.

Again, it certainly has something to do with how much money that you're going to be able to garner to put it together. Thank you.

Mr. MINGE. Thank you.

Mr. JOHNSON. I want to thank the members of the panel. I think their discussion and their response to the questions has been excellent and will be a real benefit to the members of this committee. So thank you.

We will call now the third panel. That panel is comprised of Mr. Mike Crowley, who is with the Crop Agency, Inc. of Worthington, Minnesota; a special welcome to Mr. Don Marin, who is with Marin/Biel Insurance, Inc. of Selby, South Dakota, a constituent of mine; Mr. Steve Lindholm, president of F&M State Bank/F&M Insurance Agency of Clarkfield, Minnesota; and, Mr. Eugene Smestad, branch manager/insurance director, Farm Credit Services of Fargo, Valley City, North Dakota.

We'll proceed in order, going through the panel, and only then going to questions from the committee. We'll begin with Mr. Crowley.

#### **STATEMENT OF MIKE CROWLEY, AGENT CROP AGENCY, INC.**

Mr. CROWLEY. I'd like to thank the chairman and Congressman Johnson and the rest of the committee for this opportunity today to speak here. I've been an agent in Nobles County, Worthington area, for the past several years.

The crop insurance offers our farmers the opportunity to protect themselves from financial disaster. The existing program does need some changes and that's why we are here today.

As we look at the existing program in our area, the APH's program has worked fairly well. The problem is then that we've had a number of years, 1988 and 1993, for example, as catastrophe years. When those two years are figured into the APH's calculations, the farmer's ability to insure at an adequate level is reduced.

A key factor for the program to work for the farmer is that it be set up so that an adequate amount of protection can be purchased. Due to bad weather conditions, the farmer may be placed in a high loss situation which he has no control over. The farmer certainly does not choose the bad weather and the loss has nothing to do with his farming practices.

I would like to see the catastrophe years removed from the 1.1 loss ratio that is being calculated. If a farmer goes over the 1.1 loss ratio today, he is subject to the non-standard classification. This results in a higher cost to him.

In the past few years, we have seen a lot of changes in the farm sizes. One farmer increases his number of acres, another decreases his, another one quits all together. This presents another problem for the crop insurance program, that there's problems with existing new farmers and the beginning farmer. The new farmer, in increasing his operation, is limited to the T-yield factor. I'd like to see this T-yield factor removed from the calculation, replaced with a straight ASCS yield.



This should apply for a 2 to 3-year period, allowing the farmer to have adequate protection until he can improve his normal yield up to a limit that he should be insured at. The program should allow the new land brought into the program to a little flexibility to be insured at the level three in order to build up an appropriate year of protection.

I have several concerns about the new proposed program, as has been discussed much earlier here about the 50 percent coverage and the cost. I believe the 50 percent coverage could be a false sense of security to a farmer out there if they do not buy these additional buy-ups. With the additional buy-ups on there, I don't know how exactly they would work as far as cost and things like this.

As discussed earlier here, just putting additional money in there, I agree with that very much. But at the 50 percent level, I believe this could be a false sense of security to the farmer and he may not purchase the buy-ups that are available.

This program also has a dual delivery system, which concerns me as far as cost and it may be confusing to the farmer. Under the current system, a farmer pays for his coverage on a subsidized basis, which is being proposed to use the disaster dollars now to give additional coverage. It seems that it makes sense to take these current dollars, disaster dollars, to move into our new protection program.

I'd like to see the subsidies on the other programs brought up to the 75 percent level so the farmer can insure at a higher proper rate and have the proper protection he needs.

I believe the producers in our area would rather have a higher level of coverage at a fair rate. If we could get more producers to purchase the 75 percent level of coverage with higher subsidies, I believe we can make this program more cost-effective for the farmer and the government.

The farmer will receive a higher level of coverage. To make this actuarially sound, we would need to have every farmer participate in the crop insurance program. With every producer using crop insurance, all additional disaster programs would be eliminated.

In summary, what I really feel we need to accomplish with the crop insurance the increase of guarantees and the use of subsidized dollars to improve the current program. Today's farmer is willing to pay his fair share if he is getting adequate protection. He doesn't want a free program that still leaves him with a great deal of uncertainty.

He deals with uncertainty every day when he checks the weather. We need to provide these valuable business people with guaranteed protection at a reasonable premium with a workable system.

I ask for your support in creating not another Federal bureaucracy, but to increase the present program that we have. This will help the farmer and all the U.S. citizens that we have. I'd like to thank you for allowing me to speak to you today on this very important issue.

[The prepared statement of Mr. Crowley appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Crowley. Mr. Marin.

**STATEMENT OF DONALD R. MARIN, AGENT AND OWNER,  
MARIN-BIEL INSURANCE, INC., ON BEHALF OF THE NA-  
TIONAL ASSOCIATION OF PROFESSIONAL INSURANCE  
AGENTS**

Mr. MARIN. Thank you, Chairman Johnson and members of the subcommittee. It's a pleasure for me to be here to testify before you today. My name is Don Marin and I'm an independent and co-owner of a small agency in Selby, South Dakota. I've been in the crop business for over 13 years.

I'm here today representing the National Association of Professional Insurance Agents. We serve some 180,000-plus agents across the United States of America and virtually all of them are involved in multiple lines of insurance coverage, some 65,000 of them being in multiperil crop insurance.

We want to commend the subcommittee and we want to commend Secretary Espy for seeing fit to come up with a reform proposal which has been badly needed for many years. I just want to touch basically on the 14 points, and 2 or 3 of them I'm going to highlight a little more, that Chairman Johnson asked that we touch base on.

The catastrophic level is probably better than no coverage at all. But as we've heard testified on the prior panel, it just does not cut it. It does not meet the farmer's needs in virtually all circumstances. As far as the \$50 processing fee, I don't know that that covers the cost of paperwork. After hearing some of the per acre, if they are nominal per acre charges, I think that we would support that concept even maybe more so than the processing fee of so many dollars per crop per county, especially with maximums put on.

I share some of the same concerns as some of the farmers that they addressed earlier here. On the requirement that producers obtain catastrophic coverage, I think it has to be tied in in order for this program to succeed. On the dual delivery system, this is near and dear to our hearts, of course, I did recommend to Secretary Espy, at the meeting that we had with him, and he seemed to favor the idea. It did not get into the proposal somehow. That was that the farmer first go to the independent agent to get a total overall picture of what the cost would be of the entire program for every level of coverage to that farmer, get a certificate.

If he elected not to buy any level of coverage from the agent or just wanted to get the catastrophic level from the FSA, he could take that certificate to his FSA office and do so. This the Secretary seemed to be very receptive to. Somehow it did not get in the program, not into the bill as submitted. I'm not sure why.

On the use of actual production history for four years, we have a little bit of a problem there. Brand new producers that have been farming before, when they get cut 65 percent of their T-yield because they can't come up with actual production history, it's not an incentive for them to get involved in the program. And we do need participation.

On the requirement for producers to insure all land in the county, that would be no change from what we have and I think we need to continue that.

On the provision for noninsured crops, we do need a subsidy for those that aren't available to buy crop insurance through the FCIC.

On the amount of premium subsidy levels, I want to hit a little hard on this. As we've heard over and over and over again today, that we need higher levels of coverage—subsidies for the higher levels of coverage in order to make the farmer a better cash flow situation for his farming operation and a total better management program for himself.

In my written report, I have even recommended dropping the CAT level as low as 25 to 35 percent and putting more coverage of the subsidy dollars from the 50 percent level into the higher levels. I was not aware until today that they were looking at taking some of the subsidy of the 65 percent for more of the higher levels of coverage. I was not aware of that.

But hearing the testimony today, I'm not so sure we shouldn't eliminate the catastrophic coverage entirely, fully subsidize limits of what we hear the farmers saying they need, 65, 75, 85 on up or whatever, and subsidize them greater and forget the CAT level. That might be something that we should take a look at.

On the expense reimbursement formula for the private insurance companies, on the average, it cost an insurance company 25 to 35 percent to do business, just their expense factor. The 31 percent that is now currently being reimbursed to the companies for handling this, the private companies, I don't think we can afford to cut any more or we're going to jeopardize the financial soundness of some of these companies, I feel.

On the provision to allow insurance companies to lower the rates charged to producers, while we advocate cost through market forces, I don't think this will work. The principal may look good, but in the long run it could limit competition in the marketplace, to the disadvantage of smaller companies. Selective marketing and cherry-picking could easily result, and we don't want that.

In summary, I would just say, in conclusion, our major concern at this time is to get the crop insurance program adequately funded. We believe the program is designed first and foremost to protect the American farmer. Farmers participating in the program enhance the stability of the economy in their given agricultural area.

We also believe that major improvements to the Federal insurance program have been possible because of the private insurance industry and the FCIC agencies to work together. We continue to stand ready with Congress and the U.S. Department of Agriculture and any other agencies necessary to protect the stability of our local and national economy.

Mr. Chairman, we need your help. We support the crop insurance program. While it isn't perfect, it does work. Thank you.

[The prepared statement of Mr. Marin appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Don. Mr. Lindholm.

#### **STATEMENT OF STEVE LINDHOLM, PRESIDENT, FARMERS & MERCHANTS STATE BANK OF CLARKFIELD, CLARKFIELD, MN**

Mr. LINDHOLM. Thank you, Mr. Chairman. I am really happy to be here and really pleased that Congressman Minge saw to it to



bring this session here to the part of the country where it really makes a big difference.

I would echo Dave Frederickson's thank you regarding the 1993 disaster. It was essential to my customers. Really it holds primary responsibility for the fact that we were able to finance most customers for 1994. So we do appreciate that.

I am President of a bank and we do business primarily with farmers. We also have an insurance agency that sells crop insurance. I support the administration's crop insurance proposal, the Federal Crop Insurance Act of 1994. I believe it is essential that the House and Senate Budget Conference Committee adopt the Administration's recommendation to transfer \$1 billion to budget for crop insurance reform.

Inadequate funding of crop insurance reform would be a case of killing the goose that lays the golden egg, in my opinion. There is a direct relationship between a sound crop insurance program and the availability of plentiful, low-cost food for the American public. The ability to insure crops is fundamental to farmers' ability to obtain substantial credit necessary to grow and harvest crops that are vulnerable to natural disaster.

Please carefully consider all suggestions. I know you are. I'd like to comment, also specifically, like Don did, on some of your questions. I'll probably skip over some that I feel have been covered quite well.

As far as the adequacy of catastrophic coverage, I also believe that every effort should be made to provide counseling and incentive to buy-up the coverage. It is simply not adequate for most farmers.

I would say that the dual delivery—that ties right into the dual delivery system. I think that private agents are in a much better position to counsel people on what coverages are needed. I think there needs to be an education process that takes place that the Government is not in a position to provide, private agents are in a position to provide.

I think that ASC is having difficulty administering the programs it already has. It's being cut back on personnel and it has an increasing workload. I think there's a duplication of services that would take place since we already have a private system in place.

My recommendation is that we use government offices to issue crop insurance. Those Government offices that issue crop insurance should be limited to areas where they don't have insurance agents. My understanding is there are some areas who don't. That's not the case here. But if there is some way to make it available only in areas—through the Government offices, only in areas where they don't have private agents.

Regarding actual production history, it should be used whenever possible. However, T-yields, I feel, are simply too great of a discount to encourage participation. It puts beginning farmers, farmers who are taking on new land, and livestock producers at a disadvantage.

The T-yield is actually—I did a calculation. If you took the T-yield, not the—I think that we could go with the ASC yield. That's already lower than what my customers produce. Average corn yield in Madison County in an average year is probably 110 to 115 bush-



els. That's probably fairly conservative. The ASC yield is probably 92, 93 bushels and a T-yield would be 85 percent of that.

Well, if you take level 2 coverage and you have no history, really, at level 2, the 65 percent level, you're getting 40 percent coverage, not 65 percent coverage.

And I don't think you can cheat the program. It's simply too expensive. Your investment in equipment and inputs and so on, even if you did the minimum farming practices, you still couldn't profit by using crop insurance.

There are situations where buy-up coverage may be inadequate. Beginning farmers who are highly leveraged and—also, the proposal allows up to 85 percent coverage. I would like to see that used. I hope the FCIC will give farmers the opportunity to buy higher coverage at an affordable cost.

Also, today, farmers have more coverage than they would under the proposal because of the combination of crop insurance and disaster payments. I believe that private industry could supply a supplement to their policies that would provide for an increasing payment at a relatively low cost, if the FCIC would reinsure that provision.

The amount of premium subsidy at the different levels. In Yellow Medicine County, it costs between \$6 and \$7 an acre to insure corn at level 2 coverage and it costs about \$14 an acre to insure corn at level 3 coverage. Mr. Ackerman mentioned that at level 2, the premiums would go down by about 16 percent possibly and, in level 3, the premiums go down about 8 percent. I don't believe that change—you won't get—it's simply too costly to go up to the 75 percent level even at those subsidy levels.

I think that farmers are satisfied at the level 2 with what they're paying. I believe if somehow you could—if they could pay the same premium at level 2 and take all as much subsidy as possible, if you get that premium down around the ten dollar area, you start getting participation at the level 3 area. If you're not around that \$10 dollar area, I think you're going to have the same as in the past. It's all going to be at level 2 or virtually all coverage will be at level 2.

The adequacy of the expense formula for private companies. I think the program needs to be simplified for the expense formula to be adequate. Whatever administrative shortcuts can take place would be critical.

I guess my time is up here. I hear comments from Washington and at home that the crop insurance program is not working very well. I do not share that view. I think it works relatively well, but can be improved in terms of increased available coverage and reducing administrative costs.

It would be very wrong, in my opinion, to think of crop insurance subsidies as a give-away program. I believe the amount by which crop insurance program costs exceed premiums paid represents a very small investment of tax dollars for a very substantial return.

Thank you for inviting me here.

[The prepared statement of Steve Lindholm appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Lindholm. Finally, Mr. Smestad.

**STATEMENT OF EUGENE C. SMESTAD, BRANCH MANAGER/INSURANCE DIRECTOR, FARM CREDIT SERVICES OF FARGO, VALLEY CITY, ND**

Mr. SMESTAD. Chairman Johnson, Congressman, thank you for being here today. My name is Gene Smestad and my remarks will be representing Farm Credit Services. I am going to highlight a part of the written testimony that you have before you. I will bullet in on some of the key issues that we think are areas of concern.

One, dual delivery system. History clearly demonstrates the inability to lace marketing and servicing incentives into a governmental delivery system. Only private agents will have the incentive to provide the product counseling necessary to assure good risk management participation.

Additionally, when the agent's personal success is based upon farmer participation, there will exist an automatic incentive to improve product value so that the sales materialize. Greater participation is an expectation of this reform and increasing product value is the only path toward increased participation.

Efforts should be made to increase the industry's role and responsibility in the delivery and marketing system rather than pay the Government to come back in as a player.

Two, the group risk plan. This is clearly another attempt to provide something less than value to save budget. All of us buy insurance and we buy individual coverage to match our risk management needs. The present APH approach provides for individual coverage which can be measured in specific dollars of protection.

GRP cannot be measured until the year is over. It can be a bonus or a ticket out of farming. It is a dangerous option to promote if we are truly concerned about protecting risk management insurance to farmers.

The implication of not having individual coverage will shrink some operators' credit limit with their respective lender. Buying a product which provides no measurable protection value is like shooting craps. It simply does not reconcile with sound business judgment.

Under a dual delivery system, I wonder what incentive an ASCS office employee would truly have to evaluate this option with a farmer.

Three, the APH calculation. This is a good approach to individual protection and the 1994 enhancement was good to see. However, further enhancements would increase product value. Enhancement one would be to limit catastrophic loss years to either the T-yield or an ASCS yield. Enhancement two would be to keep that catastrophic loss from the rate base data.

The purpose of these two enhancements would be to protect product value or prevent product value deterioration and prevent increased product price. Without these enhancements, it is doubtful that product value will increase to the desired levels. A farmer can by \$100 of hail coverage per acre, incur a total loss, and the next year he can again buy \$100 of protection.

However, with MPCl, the total loss will diminish the amount of insurance coverage he can purchase the following year. This identifies a product deficiency, as his expenses and risk protection needs will not diminish.

Four, the cheaper theory. Proponents of this reform are saying that the additional insurance the farmer buys above what I call the "something-for-nothing" line could be less expensive as a result of more participation. This is doubtful. We must increase product value to get participation. We heard that as a common theme for the first group that was up here today.

Product value will have added price if it is to be actuarially sound. Let's get away from believing we can sell a poor product just because it's cheap. History proves this is not possible. Instead, let's improve the product and price it according to value. Farmers are very large buyers of value products. They will make good business decisions if the product options are available.

Five, adverse selection is thought to be a function of, and I quote, "knowing disaster legislation will be available." As a farm owner who buys MPCIC and as a lender who sets up farm operating lines of credit, I see adverse selection as a direct function of perceived product value. That is why participation varies by crop and geographic area. If product value is increased, the size of the risk pool will increase and adverse selection will decrease.

Six, the role of FCIC. Simply stated, they must not be a roadblock to private industry's attempt to develop and market products of increased value. Allowing them to establish a presence at the county level, as proposed, would be a mistake. This would be building another cost structure that would defer dollars away from enhancing product value.

FCIC must move faster in both approving and reinsuring added products so as to be a more accommodating player in program enhancements. Private industry needs this type of cooperation if reform expectations are to be accomplished.

In conclusion, we're, again, standing at the gate of opportunity in regards to improving this risk management tool for agriculture. If this reform gets caught up strictly in the emotion of cutting costs, it will fail everyone. The focus must be to bring business principals to an enhanced risk management product which can measurably protect production agriculture.

If we promote a single delivery system by private enterprise, if we promote the development of products with true and measurable value, if we enhance the APH formula to limit product value deterioration and if we promote an American free enterprise spirit to the above process, we may have a chance at achieving reform expectations.

Good luck in your continued efforts and it's been my pleasure.

[The prepared statement of Mr. Smestad appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you to all the members of this panel. Again, I think your insights are very helpful to us. Mr. Crowley, in your area, do you have any idea what level of crop insurance sign-up you have in the area that you serve?

Mr. CROWLEY. We'd be in the area of the upper 70 percent area.

Mr. JOHNSON. Is that just in a disaster year or year-in/year-out, you do continue to have sign-up at that level?

Mr. CROWLEY. It's year-in/year-out. There are farmers who have followed the program quite closely and stayed with it on a consistent basis.



Mr. JOHNSON. So you're in an area where the history is that crop insurance has been relatively popular.

Mr. CROWLEY. Yes. We're more the exception to the rule than the rule as far as the numbers are concerned.

Mr. JOHNSON. I appreciate your observations about APH and some of the challenges we have relative to new land and changing farm methods and repeat disaster years and so on. I think your insights are very helpful.

Mr. Marin, part of the theory of the crop insurance reform is that there is going to be increasing competition among crop insurance companies. Do you think that is, in fact, going to occur? How competitive out there is the sale of crop insurance going to be, do you think? Are companies going to be out there competing vigorously or is this not that helpful?

Mr. MARIN. I think, Tim, to answer your question, the competition factor is out there. There are many, many companies vying for the business, to add to their portfolio of products that they can give to their agents to sell. The fear that I have is if we go to cost-cutting. If the company can do it for a less amount, they will pass that saving on to the farmer.

As I mentioned, it looks good in theory, but it seems like always someone comes up that, well, we'll lose money a little bit to get the majority of the business. We'll wind up with limited competition, which is not good for the farmer, it's not good for the agent, it's not good for the program. I think we need to keep that reimbursement at an adequate, but not over level, and I don't think we dare go much below this 31 percent in order to keep it that adequate.

But the competition is there, Tim. We've just got to be careful how we use it.

Mr. JOHNSON. Thank you, Don. Mr. Lindholm, do you require borrowers to take out crop insurance or is it on a case-by-case basis that you make that determination as a lender?

Mr. LINDHOLM. Well, we look at the map. It takes about, in our county, approximately \$240 an acre to raise an acre of corn. At level 2 coverage, it will vary, of course, among customers, depending on what their actual production history is. But they'll be within \$70 to \$80 short of covering their costs.

So we multiply whatever that shortfall is, the difference between their crop insurance protection and what it costs them to raise the crop, and multiply that times the number of acres and then we know what their potential loss could be in the event of a disaster. We compare that to the reserves the customer has.

If they have sufficient reserves to cover a disaster without crop insurance, we don't require it. If they don't have sufficient reserves to cover, then we do require it.

Mr. JOHNSON. If your borrowers are getting free catastrophic coverage, in effect, I would assume that for many of them there are some significant savings, financial savings, that they can then use to buy up coverage, that they would have greater ability to buy up coverage than they would have had in the past. Would that not be true?

Mr. LINDHOLM. I had some estimates done—I think the average premium cost in Yellow Medicine County at level 2 is about \$6.70. With the 16 percent potential reduction in premium cost under the



program's proposal, that would bring it down to \$6.20 or something like that.

So there is some savings there. The real savings would be if they didn't carry it at all. But the fact is that very few can get along without higher coverage than the catastrophic level.

So there's a small savings and it's my opinion that they would still pay that \$6.70 if it would be helpful to get a lower cost on that \$14 coverage. It's just no way that you're going to get a lot of people who would love to have 75 percent coverage, but they're not going to double their premium to do it.

Mr. JOHNSON. Mr. Smestad, I gather there isn't much in the reform proposal that you like at all.

Mr. SMESTAD. I don't want you to take it that way. The issues that I brought up are issues of concern and the one theme is product value, because if it's going to work, we have to increase that which we presently have. Thirty percent or 33 percent of the acres are insured. There's a message in there. Some say the message is that people rely on a disaster program taking place. Some of us do not buy into that. Some of us say that the product value is not there.

When you asked the question whether we require our borrowers to carry that coverage, it is a case-by-case basis not only on their cash flow, but on what their yields are. Some individuals have yields that are so far superior to what this coverage can offer them that we presently have and if our buy-up in this reform is going to be similar to where we are today, getting to that 80 percent is just going to be a Martin Luther King dream. We're not going to get there.

There has to be a product of value there before a good operator will buy it. In the 1989 hearings, that was a common theme throughout the country. People asked for more product value. In the first group up here today, they concluded with that same theme, that we have to have more of a product.

So I'm not against the reform. I think it's the path, the gateway to an opportunity to do something, but if the emotion of cross-cutting is going to override it, then I'm real concerned that we'll achieve it.

Mr. JOHNSON. Understanding that, obviously, we have a finite fiscal pie to deal with. In fact, there are a great many people in Washington right now in the Senate and in the House who don't want us to have even this amount of money for crop insurance and who resent spending nickel one to subsidize any sector of the economy.

So we have that challenge ahead of us. One good point, I think, raised on this panel that I think has been neglected by myself a bit is that while we've talked about the shortcomings of crop disaster programs and how ad hoc crop disaster programs should not be the strategy of the future.

Nonetheless, I think it has been well pointed out that those programs were critically important in recent years across much of our part of the country. I know that Mr. Peterson and Mr. Minge, as well as many others from our part of the country, worked very hard to come up with the crop disaster programs that we had. Given the circumstances that we had, I think they were essential.

They had their shortcomings and their failings, but given the overall environment, they were essential. So we shouldn't trash those past efforts too badly. There are a lot of people who are still farming today because of the benefits of those programs.

The question now, however, is that approach is probably not sustainable into the future and what new strategies are we going to be able to adopt in order to provide a more efficient, more predictable, less political risk management tool for individual producers, and that's the challenge that we have.

So that's not to say that our efforts on disaster programs in the past were all bad. I think they were essential in many ways.

Mr. Peterson.

Mr. PETERSON of Minnesota. Thank you, Mr. Chairman. I don't want to dwell on this too much, but this discussion I had with the previous panel in terms of the catastrophic end of things, I would like your opinion on what you think about that.

I sense that, if I listened to one of you at least correctly, you'd just as soon maybe say we don't even need the catastrophic level and we should put the whole thing into the higher coverage, which I may agree with. But I think politically we almost have to put it there so we say that we've got some coverage so we can avoid disaster bills.

Mr. MARIN. Yes. I guess I was the one that mentioned that. I think that the responsibility lies with us all to be prudent business people, and our farmers are prudent business people. Every one of them I know of up in our area does not want anything for nothing. I think if we give them an adequate buy-up coverage, they wouldn't even look at the CAT coverage.

I agree with my friend to the left over here at the far end of the table that the product has to be—if it's a good enough product, the farmer will buy it to better manage his operation. So I really do believe that that could be eliminated if the funding was good enough with the high enough levels.

Mr. PETERSON of Minnesota. I think there's no question that that's a big problem with the program. It's that it's just not a good business decision to buy this stuff. How you get there is the question.

Southerners have had a pretty good situation. They've had all the committee chairmen and they've been getting coverage without paying for it for years. If they can continue that kind of a program, I think that's what they're going to opt for.

It's one thing to talk about what we here in the Midwest thinks makes sense, but when you get to California and you get to the South, they've sometimes got some different ideas. They've been taken care of very well without having to pay anything. So that's one of our challenges, trying to figure out how we get everybody into the tent.

Do you think, those of you that sell insurance, that it's going to drive anybody out of the system if we charged them so much an acre rather than that \$50 fee per crop—whatever the number would be? Do you think that would make a whole lot of difference? It would probably make more difference what's on the top end, I hear you saying.

Mr. CROWLEY. Yes. Our concern on that 50 percent catastrophe level there is that a lot of farmers may just take that and we could have a year like we did last year and that would not be adequate coverage. Therefore, there would be more pressure put on Congress to bring out a new disaster program.

The buy-ups, I think, would be more beneficial to the farmers as long as they were priced reasonably and we put our subsidies in that particular area. The cost of that \$50 fee per crop or \$100 per county is not, in my opinion or a lot of people's opinion, probably fair where we have a 160-acre farmer versus a large farmer. I think each farmer wants to pay his own fair share. But I think some consideration needs to be given on this fee for those acres.

Mr. PETERSON of Minnesota. If I could just make a comment. I guess I'm interested because of my background. They say the only people that are more boring than CPA's, which I am, are actuaries. I don't know if that's true or not. But, anyway, I would be interested in having some information about what this looks like if we go to a system like Mr. Smestad has been talking about here, where we allow people to buy the coverage based on what they've actually produced, and then what the actuarial numbers look like in order to make that happen without any Government subsidy.

Do we have that information? I guess I'm just saying to you I'd like, in addition to this other information I asked for, I'd like you to make that available in more detail, at least to me, because I'd be interested in taking a look at that, because I think that really is the crux of the problem.

Some of us that are going to have to make these decisions, I think, are going to have to understand the actuarial aspects of this in order to be able to figure out whether it makes sense or not. It's pretty complicated stuff. But I, for one at least, would like to try to take a shot at it and try to understand this better.

So when we get back, if we could do that, I'd appreciate it.

Mr. ACKERMAN. We can provide that kind of information. We can run those numbers on a couple of different sets of assumptions, so you can see what they look like.

Mr. PETERSON of Minnesota. Thank you. Thank you, Mr. Chairman.

Mr. JOHNSON. Mr. Minge.

Mr. MINGE. I just have a couple of questions. Several of you have talked about value, particularly the question of having a value policy or value product to sell. If the product is being subsidized by the Federal Government to the extent that we've talked about, this product is a much better investment of money than anything that one could do by going to a casino.

The odds are stacked in favor of the farmer when you have a subsidy that not only covers the underwriting costs and the administration costs of the program, but, in addition, has a fairly substantial subsidy on the premium.

I'm wondering if the policy terms are written so that they cover the losses in an adequate way and if the premium then reflects the cost of that type of a policy, because the better coverage you have, obviously, the higher the premium has to be, and then if that premium is discounted to the extent of the Government subsidy, do you think farmers are actually willing to purchase up to the 75 or



85 percent level? Because you're really talking about a pretty substantial premium there for a good quality policy.

Mr. Crowley, I pose that question to you.

Mr. CROWLEY. Yes. I think the farmers in our area have shown that in the past that they will purchase this crop insurance. But if we can get those levels up there at the 75 and this 85 percent level and the rating system is adequate, I do believe they will purchase this, providing that we're not coming back with disaster-type programs all the time.

This is always a problem of a person making the decision of buying the crop insurance because he feels that Uncle Sam basically is going to come back in and help him out in a year of a catastrophe.

So we have to eliminate that first, I feel, and get the coverages up there and make sure that they're at an adequate level. The farmers, I do believe, will buy this and we'll have enough farmers in the program to make it actuarially sound.

Mr. MINGE. I'd like to follow up with another question. We have some counties in Minnesota which are receiving back in terms of program payments approximately 35 cents for every dollar they pay in, and one of them is very close to your home. It's over in Jackson County.

We have other counties in Minnesota that are receiving back more than a dollar for every dollar they pay in, and we have entire States in the South that receive back like \$2.50 for every dollar they pay in. So we have quite a disparity in the program not only within a State, but across the Nation.

Have you seen in your area, and, Mr. Crowley, I'm most familiar with the rates in the Nobles and Jackson Counties area, a reluctance to purchase crop insurance because of concern that the benefits coming back in are significantly less than the payments that are going out?

Mr. CROWLEY. Yes, there are some problems in there. One of them is when they purchase the crop insurance, most of them stay at that level 2 coverage because of the payment limitations that we run into against the disaster program. There has been a cap put on that. So in many cases, the farmer has not purchased the higher level of coverage for the fear of running into this cap that they have. So it limits them on the amount of money that's been available.

So he pays a premium throughout these years and when a disaster does come along, this money is made available to everyone, whether they have crop insurance or not, although there are different percentages for an individual with insurance and without. But there, again, the farmer that has insurance is limited on the amount of money that is available to him on that.

Mr. MINGE. We've had questions raised about the administration of the crop insurance program in a time of loss, like we experienced in 1993. Mr. Marin, I'd like to ask you if you've seen problems the way different crop insurance agents and companies are handling claims and if that's given rise to a certain awkward situation and, if so, how you think we could improve the administration of the program to avoid that.



Mr. MARIN. I don't know that we really need to change it at all, Representative Minge. You could send 40 adjustors out there. They could be all Government adjustors or they could be 40 different private companies or they could be a mix of each, and you're probably not going to get two of them to come up with the exact same kernel count and figure and determination of exactly what's left standing there.

The way in which it's handled now in our agency, every year for the last 3 or 4 years, we get spot checked. We get files pulled on us and they're checked, loss files pulled on the adequacy of the information, the farmer is gone out and checked on, and, fortunately, we've always been all in line and everything and never had any problem.

So if there are problems, like Mr. Ackerman alluded to, and persecution takes effect, which it well should, I don't see any problem with the way we're doing it right now.

Mr. MINGE. Thank you. I see my time is up.

Mr. JOHNSON. Any further questions, Mr. Peterson.

Mr. PETERSON of Minnesota. No.

Mr. JOHNSON. Mr. Minge, do you have any?

Mr. MINGE. Again, I would just like to thank the panel. I think that you made excellent presentations. It's very helpful to hear from you. Mr. Lindholm, were you going to add a comment?

Mr. LINDHOLM. Could I make one more comment here?

Mr. MINGE. Yes.

Mr. LINDHOLM. I always look at the statistics. From 1980 to 1989 in Minnesota, for corn, for every dollar premium paid in, only 55 cents of losses were paid. On soybeans for the period of 1980 to 1989, only 64 cents of loss payments were made for every dollar of premium paid in. Sugar beets was 82 cents and wheat was \$1.16. So for that 10-year period, wheat was the only crop where the losses exceed premiums paid in.

Of course, that statistic is much higher now because of the last couple of years. I think it's at 137 percent overall for the period of 1980 to 1993. However, I think over a long period of time, the Midwest really does show some pretty good actuarial numbers, and you pointed that out. There are some inequities between where we live and other parts of the country.

Is there any way that there could be some underwriting matters addressed to make that more equitable?

Mr. MINGE. I do know that between the Agriculture Committee, the Appropriations Committee, and then in consultation with the FCIC, there is a concerted effort to try to redress that inequity. So hopefully we'll see improvements in those ratios.

Mr. SMESTAD. Congressman, one last statement. We've been discussing Plan A this morning. Plan A is funding of \$1.9 billion to make this proposed reform work. All of us here are grateful that you're in support of this direction. But let's say we don't achieve plan A.

In the discussion of whatever plan B may be, there will be proposals that will say let's save money by eliminating units, let's save money by expanding the GRP concept, and let's save money in those types of areas. What we'll end up with is less of a product, again, and we won't achieve any of these expectations of reform.

So whatever we get—if we should fail with plan A and get to plan B, we'll have to draw a line in the sand and label product value as being the important thing to maintain and then maybe scrapping the free disaster or catastrophic level and some of those type of things to build that value.

Mr. JOHNSON. I agree that if we come in with less than the \$1.9 billion, we're going to have to lay out a menu of policy options that would be available to us, with the understanding that if we get too far below that, we may just see the viability of reform destroyed all together.

I would suggest that there are a great many people on and off the Agriculture Committee who would be very reluctant to create a legislative prohibition on future crop disaster programs, ad hoc, if catastrophic coverage is lost. I think that may be part of the political dynamic. If you're going to trade off the ability to do crop disaster programs in the future, they're going to be very reluctant to give up very much on the catastrophic coverage.

So it's a fine balancing act that goes on here. The best answer, of course, is to have the administration's recommendation on the full \$1.9 billion, which still says it's the taxpayers' money, by the way, over 5 years, but does give us at least the resources to significantly enhance our crop insurance program.

So thank you, again, to members of this panel. We are very appreciative of your insights. We'll go now to an open mike portion of the hearing. There are six individuals who have thus far expressed an interest in expressing comments to the committee for the record.

It would be helpful if you would come down to the witness table to use the mike so that everybody can hear you. You must fill out our witness card pursuant to Ag Committee rules, and it's provided by the staff.

We will have to follow the 5-minute rule. When you begin to talk, the green light will be on. When it goes to red, it will be important for you to wrap up your comment. Otherwise, we won't have time for everybody who wants to speak.

So we have six individuals. I will simply call them in the order that they signed up and see if they're still interested in expressing their views. The first would be Mr. John Keister. Is Mr. Keister here? Here we go. If you would come down and use the mike by the witness table, that would be very helpful. You can stand or sit or whatever you're most comfortable with.

#### STATEMENT OF JOHN KEISTER, BLUE EARTH, MN

Mr. KEISTER Mr. Chairman, members of the committee, I'd like to express my strong support for the program, first of all. I'm going to leave you a copy of written testimony and I will summarize.

You are asking for comments that could strengthen the program. My first comment would be to appoint a permanent manager versus a political appointee. My comments here have no bearing on Mr. Ackerman, but there has been quite a window of rollover the last 15 years of Manager and I believe that this has added a lot of problems with continuity in the program and decisions have been made or put off.

I believe that the relationship between the companies, the Government and the farmer would be better served if there wasn't such a revolving door at the top. A case in point of this is the decisions that were made or not made on the 1993 coarse grain quality adjustment procedure.

My second recommendation would be instead of a dollar amount coverage, you simply let the price per bushel float. Instead of using a market price election under our current system, where you're allowing both collection under Federal crop insurance and ad hoc disaster, in effect, that's what you're doing anyway.

The farmer needs coverage that is higher than the \$2.40 corn election would allow. Why can't he choose a \$3 election? That \$3 election does not change the probability of loss. There are numerous adjustment procedures out there that can guard against abuse in the system. That is the biggest single comment that is against that, is abuse in the system. My point is that it's already there because he's collecting the \$2.40 and the disaster anyway.

The third recommendation would be to expand actuarial—first of all, to change actuarial to rely on true rating in a given area. The gentleman here at the end of the table led into this. I'm not exactly sure. It's been a year since I've seen the figures. But in the northern corn belt, it seems to me that corn was overpriced by 25 percent.

If the true premiums in true areas were given, then maybe some of these problems of trying to grow dry land corn in west Texas won't happen. They're simply going to have to pay the rate that's down there.

The other portion of that is the actuarial division can expand their reinsurance portfolio. I believe that the actuarial division has a lot of expertise in it. The world market reinsurance because of the hurricanes, floods and what have you has left a tremendous dent in that availability of reinsurance and there has not been a consistent market for the companies to go to.

If that would be expanded, that alone, bringing out new programs, would add tremendous competition in the industry. And what the heck, the Government might even make a buck or two on the end of it.

The last thing I have is a comment. It seems to me that the farmers whose organizations object to a mandatory program—I believe it is already mandatory. That comes in that it is mandatory for you to pass the bill if it happens by their political pressure. I think that your time is better spent if the program is there without going through the fashions of it.

So I believe that it is, in a sense mandatory or society is requesting that when it happens. If it's incorporated in where the farmer has it automatically at the current levels he has, then he has to choose which levels he wants to go up to.

But I really think the time—we've followed this argument for 16 years and the argument was the same 16 years ago. From a cost accounting standpoint, I believe that it's time to get the argument over with, choose one system or the other, but do something. Thank you.

[The prepared statement of John Keister appears at the conclusion of the hearing.]



Mr. JOHNSON. Thank you, Mr. Keister. Mr. Bruce Kleven. Again, for each of you who happen to have augmented your statements with a written statement, your written statements are received for the record of the committee and we will take those back to Washington with us. Mr. Kleven.

**STATEMENT OF BRUCE M. KLEVEN, STAFF ATTORNEY,  
FARMERS' LEGAL ACTION GROUP, INC.**

Mr. KLEVEN. Mr. Chairman, members of the committee, my name is Bruce Kleven. I'm a staff attorney at Farmers' Legal Action Group, FLAG for short, located in St. Paul, Minnesota. I also farm with my family up in Milan, Minnesota, a stone's throw from Representative Minge's hometown.

I have written testimony that has been submitted. I will just summarize here. Much of my work this past year has focused on analyzing existing disaster programs and answering phone calls from disaster-stricken farm families. As you know, a lot of people had trouble and when they needed a legal hand, they called us.

My comments this morning are directed at some of the legal issues that were raised in the heat of the disaster last summer and how they fit into the proposed crop insurance reform legislation.

Before turning to that, I want to focus on some statutory language that's in the bill. If my colleagues in the legal profession get hold of some of this, they can twist it into interesting contortions.

The one I'm talking about, of course, is the \$50 per crop per county, and that's been talked about quite a bit this morning. The first issue that we had over that was the payment if someone with 800 acres of corn paid the same \$50 as someone with 80, and that's been discussed quite a bit this morning. But one that hasn't is number two that I have. What happens when a farmer has more than two crops?

The language, as it stands, provides that catastrophic insurance can be purchased at \$50 per crop per county, not to exceed \$100. This clearly allows for two crops to be covered at the catastrophic level. Yet, there is no statutory mechanism for covering third and fourth and fifth crops.

On one hand, from Washington we're hearing that we should diversify and go into sustainable practices which will probably require five crops for rotation. Yet, our catastrophic coverage is clearly only allowed for two.

Mr. JOHNSON. I think, Mr. Kleven, the goal here is to allow coverage for all your program crops, regardless of how many you might have, but that you would not have to pay more than \$100 in processing fees. I would certainly share your view that we need as much diversity as possible and we would not want to do anything that would limit that diversification. But a good point.

Mr. KLEVEN. That's just something that stood out when we read the language, could somebody construe that in a weird way, and, of course, I did. But that would cover my question there.

Second, then, \$50 per crop meaning crop raised, meaning all fields or per field. Again, this has to do with 20 corn fields covered for the same \$50 for one corn field, and I think that has already been addressed this morning, again, following your comments.



FLAG would encourage the Committee to address these ambiguities to avoid improper interpretation problems during the agency's rulemaking process.

Turning to something that happened this summer of a legal nature. One important issue that was forced to the table this summer is proper cancellation of insurance contracts. Earlier this morning, Mr. Ackerman mentioned that policies should not be ad hoc and, in fact, they constitute a contract.

It is the contractual relationship that I wish to address and I have two examples of phone calls I received this summer. In one case, a producer purchased crop insurance by April 15 and the company agreed to provide coverage at a certain level.

The producer reported the planting dates, but did not provide the exact number of acres through an oversight on his part, which he admits. After the farm was flooded in August, the insurance company notified this producer that they were cancelling his policy even though this contract had been formed. The reason was that he did not report the number of acres.

In another case, a far worse case, this person did the same thing, except he received disaster assistance back in 1992 and as a condition for program participation and collecting disaster last year, he had to buy it for 1993. So he signs up by April 15. He purchases the policy. This person also did not report the acreage. He did turn the acreage into ASCS and he honestly believed it was good enough because he figured ASCS, Federal crop and it was the government, and he turned them in.

Again, the rains came and along about August, they called him and said "We're cancelling your policy." When ASCS discovered this, they said "Oh, you're out of compliance with your 1993 insurance contract. You've got to pay back your 1992 disaster, as well."

So this guy, after making what he believed was a good-faith effort, wound up with no insurance coverage for 1993 and he had to pay back his 1992 disaster, as well.

Now, the regulations governing the crop insurance program provides specific reasons for cancellation of an insurance policy. Valid reasons for policy cancellation include failure to pay the premium, fraud, misrepresentation, death and judicially declared incompetency. However, failure to provide planted acreage and planting dates are not valid reasons for cancelling the policies.

In a year that producers needed this coverage most, it appeared that insurance companies were all too eager to cancel policies whenever they could. FLAG would just encourage you to address an issue in your legislation to that nature. Thank you.

[The prepared statement of Mr. Kleven appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Kleven. Appreciate your insights. Mr. Jim Lewis is the next individual on our list. Welcome, Mr. Lewis.

#### STATEMENT OF JIM LEWIS, LUVERNE, MN

Mr. LEWIS. Thank you. Honorable Chairman, Congressman Johnson, David Minge and Collin Peterson, thank you for the opportunity to say a few words today about Federal crop insurance. I assure you it will be very few.

I'm a 30-year veteran of the Department of Agriculture, all of it with ASCS, but I worked very closely with Federal crop insurance during this entire period. I believe Federal crop insurance is a very important tool in the stabilization of agriculture. It offers an opportunity to protect that bottom line.

I look at Federal crop insurance as a management tool or necessary expenditure in the farming operation. Part of the reason for the low usage of the Federal crop insurance is, first, coverage is too low to protect the investment. Second, the cost of protection is too high even with the Federal subsidy. Third, the Federal Government always bails out the farmer with disaster funds with or without Federal crop insurance.

I think this is something we've always told our people. If you didn't take Federal crop insurance, you're going to be in trouble, and it seemed like you guys always bailed them out.

I feel we need to do three things. We should use these disaster funds or at least part of those disaster funds to increase the Federal crop insurance subsidy, and I think that's what has been talked about all day. We need to increase the coverage; yet, we've got to keep the program actuarially sound.

Third, we must say no to these disaster bail-outs. I think we've been—or at least I used to tell people in my office ten or 15 years ago that if you didn't take crop insurance, you weren't going to be protected. I was proved wrong quite often.

I'm sure you've done it with good intention. Farmers would get in serious trouble and they would have been in very serious trouble without that help. So I'm not critical. I'm just bringing up the facts.

I think lenders will insist on the insurance protection, if we have a good program. I read recently where one Senator commented that we cannot increase the subsidy to Federal crop insurance due to budget restraints and that disaster payments are not part of the budget. Well, they are still tax dollars and they come from somewhere. I think we should be able to work that out.

Another issue is preventive planting. We had this in the past and it's very, very hard to administer. We'd have to be very strict with meandering land, with producers that probably farm more than they're able to handle, poor management practices and so forth.

Thank you for allowing me to say a few things.

Mr. JOHNSON. Thank you, Mr. Lewis. Appreciate your input on it. And you are right, I think, on all your points. In 1980, Congress said we're going to do crop insurance and we're never going to do a disaster payment again. That turned out to be a not very credible promise. The mechanism that we're looking at utilizing this time is sort of a stop-me-before-I-spend-again kind of mechanism, whereby obviously we cannot totally prohibit what a future Congress or future White House wants to do, that's their prerogatives, but we can change the rules.

Currently, if you want to spend disaster money, you can simply do so without raising taxes or cutting other spending, unlike all other kinds of spending which require budget neutrality. We're going to change those rules so that in the future, if a Congress or a White House wants an ad hoc disaster bill, they're either going to have to raise someone's taxes or cut the rest of the Ag budget to pay for it.

That is going to be exceedingly difficult to do with the kind of political environment that exists in Washington today. So I think that there will be teeth in that promise. I'm sure there will be skeptics, nonetheless, until we go through a cycle of no crop disaster payments, but the mechanism will be a strong one.

The next individual is Mr. Stan Gyberg.

#### STATEMENT OF STAN GYBERG, FARMER, LUVERNE, MN

Mr. GYBERG. Thank you, Mr. Chairman, for coming to Luverne, Minnesota. We appreciate your being here. I think one of the concerns I've had while I've been listening to this—most of my notes aren't going to be as complete. I've been writing them down as I've been going here.

One of the concerns I get is I hear a lot about the \$2 billion we're spending for agriculture and the consumer always being concerned that that's our tax dollars. But I also have to point out to them that we have \$10 billion spent in Florida, we have \$10 billion spent in LA, and those are my tax dollars. So I'd like to keep that point clear that it works both ways.

It seems that in agriculture, we're always the first ones that are talked about when we cut the budget and we've taken a lot of cuts already and our programs seem to be getting smaller all the time. That's one of my observations.

The next thing I'd like to get to is that it concerns me that our insurance coverage doesn't get more into the ASCS office than it is. I understand your point that someplace there is an agent. In this area, we are very well provided for by private coverage and I think they do a good job, because they are very competitive. When there is something wrong, they will explain things to me. They will take the time when they have to. Like this last fall, they were working from 7 o'clock to 11 o'clock at night.

There are no 8-to-4 hours and stuff like that. If I don't like them, I can go across the street and get somebody else. That's what makes the insurance companies, in my view, good, because they have to be in order or they don't survive.

I like the per acre assessment. I like that. I think our insurance has to be affordable. I think we have to subsidize the higher levels, because when I go into a bank or someplace, I need a certain amount of money to work with. When I look at 50 percent or something like this by the time I'm down there, I really need that money. But I still need 65, 75, whatever the coverage has to be to operate and those levels have to be affordable.

So I think those discounts that you're talking about have to go through the higher systems of our coverage. I think Jim Lewis talked about some of the points of why people don't buy insurance is because they feel that government is going to bail them out anyway. I think we should stick to some policies.

Last summer I visited my ASC office more than I visited anybody else in the whole county here, trying to keep up on program changes, insurance changes and this type of thing. I have had 27 years of crop insurance coverage and I'll tell you I'm not ahead of the game. I think when you talk about, well, if you turn this over to the state private insurance companies, they deal with car insurance. If you're in different areas, it costs you different.



I don't know how the Government sets their rates, that somebody in the South gets \$2 versus 43 cents or whatever it is. If we have good history, we should have cheap coverage. If you have a poor history, you should pay for it.

That's mainly my observations here. If you have any questions, fine.

Mr. JOHNSON. Thank you, Mr. Gyberg. I think you raise a good point. I think many people will buy all of their insurance through a private insurance agent, because there is nothing in the reform that requires you to buy your insurance from the ASCS office. I think it is important. I think people will increasingly utilize their private insurance agency.

I think you raise a good point, as well, on the Florida and LA disasters. Being the devil's advocate a bit, South Dakota and Minnesota and wherever else will continue to get the same kind of relief they get in LA and in Florida if your house washes away or whatever happens. But agriculture is the only sector of the economy that gets compensation for lost revenue. No other sector does, and that's why we are trying to perfect this crop insurance system, so that we do continue to provide that kind of relief.

Thank you. We will go next to Mr. Mack Willers.

#### **STATEMENT OF MACK WILLERS, FARMER, BEAVER CREEK, MN**

Mr. WILLERS. Chairman Johnson and members of the committee, I would just like to make a couple comments. First of all, from a farmer's standpoint, you always buy insurance mandatory if you're a young farmer. I started farming 17 years ago and as a lender borrowing me money, your insurance is mandatory. So any part about arguments of not mandatory is not true.

Also, in that 17 years, I have never collected a penny, even in 1983, 1988 or last year. So I think the idea of going back to lesser amounts of premium due to your loss would be obviously well taken.

The other part I want to comment on is on the ASC committee, we gave out \$10 million in this country last year and we're not done yet. Your comment about it helping is obviously there, whether people want to admit it or not. The thing that bothers me—a couple things.

If we reform this, there are a few details that I'd like to point out. If we're going to do away with disaster, there won't be any disaster for the people that grow hay. The way the hay program works now is that every time that you have a disaster, you lower the amount and you can never raise it. If that's going to come under the insurance program, that part would have to change.

Also, as you are having debt or structuring budget for USDA and you're talking about retraining these USDA employees or going into an FSA, where is the money going to go to retrain the crop insurance people? Because when we go through a forum of people in from the elevator that has a list of every form they bring in, we have to do it by hand at the ASC office to figure out where they are, and we don't use the same form as the crop insurance people.

So someplace along the line you guys are going to have to have the actuarial people come up with that. The other question I have is where the ASC committee will stand on setting yields. Now,



we're going to have the CRP acre start coming out. Are we going to come back and go back to their original corn base and what kind of value are we going to put on that base since it hasn't been farmed for so many years.

Will we be able to get decent crop insurance for them people? Because in western Minnesota, west central, and in South Dakota, there's a lot of acres in some of these counties that there's going to be income needed from. I think one of the other things I was worried about is your new MVP pilot project. My question is it sounds wonderful to be able to ensure at a higher level, but if you can do that and you have a loss or you're near a loss, will the people be interested in destroying the crop because they won't have any basis to gain from the price difference in Chicago compared to local grain price.

Will you actually make the farmer go out and destroy a 0/92 so they can get paid more, because there wouldn't be any basis difference.

I talked to Mr. Clifford Parker, he's the Director of Claims at FCIC, about last week and he said there was no mechanism in there to counteract that yet. So maybe you could look into that.

Thank you for your time.

Mr. JOHNSON. Thank you, Mr. Willers. I think you raise a good point that we continue to need to expand the crop insurance program to added crops, and, obviously, there has to be a mechanism and there is a mechanism to provide some protection for nonprogram crops. The CRP question will be taken up in the 1995 farm bill. That remains to be seen.

I have a feeling that we're not going to simply totally terminate that program, although it's true that we may not have the full level of budget that we have now. And the pilot project we will have to monitor very closely. I think we need always to be trying out innovative new ways of trying to protect farm income.

This is one that may not work at all. It may be work. There may be portions of it that work. So we're sort of, I guess, waiting to see the final report come in to see how it proceeded. But I appreciate your caution on that issue.

The last individual we have on our list that's reported to me is Mr. Randy White.

#### **STATEMENT OF RANDY WHITE, STATE REPRESENTATIVE, NORTH CENTRAL CROP INSURANCE, INC.**

Mr. WHITE. Thank you, Congressman, for coming to the Midwest to address this issue on crop insurance. There are some things that I would like to point out here.

First of all, as we all know, everything comes from the ground and we need to protect the viability of agriculture, at no matter what cost. Multiperil crop insurance is one aspect of that. In South Dakota, where I'm from, in 1993, our company had 2,700 losses. I know that some of the people from Minnesota felt that the level, the 65 percent level did not provide them adequate coverage.

I have 2,700 people in South Dakota that collected a lot of money that they would not have had they not had the 65 percent level. They were very happy to get that money.

In visiting with these farmers, and I was out and adjusted a number of them, they would certainly support eliminating disaster payments if they could increase their level of coverage a reasonable premium. It definitely would be a situation that they would accept.

Many farmers in South Dakota in 1993 that suffered losses would not be farming in 1994. They would not get the funding from their banks if it were not for the multiperil crop insurance program. Many banks do look at that when they go to make the loan to that farmer.

Multiperil crop insurance versus disaster would be more acceptable, I would imagine, to the people in the metro areas because the farmer does contribute to the plan, which, in most farm programs, they do not.

The CAT plan for 1994 concerns me a little bit because in 1993 when the 35 percent level came out, we had more problems with the 35 percent level than any of the other levels, simply for the fact the farmer was not happy when we adjusted it. Even though they were told at the time they purchased the policy that they had very low coverage, when it came time to collect, they were very unhappy because they had lost their crop and they were getting very small amounts.

We had situations where people were paid a couple thousand dollars that could have gotten \$50,000 or \$60,000 had they bought the higher levels of coverage. It concerns me that that would give the multiperil policy another black eye that we do not need.

Preventive planting coverage is in the 1994 crop policy. It concerns me a little bit because there is some confusion regarding the number of acres available for coverage and how it will be allocated or prorated. We've had several meetings with FCIC. There is some confusion regarding that. I think a lot of farmers think that if they don't get it planted, they're going to have coverage, and that is not necessarily the case.

The dual delivery system also concerns me. The multiperil policy can be very confusing to the client and I'm afraid that it would cause more confusion having to go possibly to the ASCS or to independents. They're not going to know what they should do. Independent companies are also forced by the client to do a good job. If they don't, as the gentleman earlier indicated, the person can change companies.

Also, I'd like to address the issue that was brought up about competition among companies. Multiperil crop insurance is not like hail insurance in the aspect that there is a lot more paperwork. Companies need the staff to handle this paper flow for the acreage reports, the production reports, et cetera.

With differences in rates, business could be transferring from year to year, causing more confusion. As someone said earlier, there is a lot of confusion in this product. If rates were different every year, different companies would have different levels of premium. Those policies could be transferring from one company to the next. It's very hard to staff and to be able to handle your work load when you can't anticipate what kind of a premium you're going to be dealing with. I feel that that may cause some companies to withdraw from the multiperil market.

Thank you very much for your time and I appreciate you coming here.

Mr. JOHNSON. Thank you, Mr. White. I appreciate your observations on the competition and, also, on the administrative difficulties of implementing preventive planting programs. I think we're all very supportive that you've got to have preventive planting coverage, but obviously there's a lot of complications in getting it done right. Thank you for your observations.

I want to thank the Luverne VFW for hosting this hearing in what is really an excellent facility for this kind of gathering. The community should be awfully proud to have this kind of facility. And thanks to VFW, as well, for the coffee provided and for the warm welcome that we've had to the Luverne community.

Mr. Peterson, do you have any closing comments?

Mr. PETERSON of Minnesota. Again, I appreciate your leadership and look forward to working with you to start this all up.

Mr. JOHNSON. Thank you. Mr. Minge?

Mr. MINGE. I would also like to thank the VFW, the community of Luverne for hosting this event, and thank you, Mr. Chairman, for bringing the subcommittee hearing to southwestern Minnesota, an area that has been so hard hit by the 1993 flooding tragedy.

In that regard, I would like to point out that the Federal Government, as of March 1, had paid out approximately \$2.5 billion in agriculture disaster and crop insurance benefits to the Midwest. Of that amount, approximately 30 percent came to Minnesota and we still are not done with all of the adjusting and the disaster assistance claims processing.

We could end up in Minnesota with as much as \$1 billion of benefits from the Federal Government to help us and that actually came to the Second Congressional District. We have received more money in this congressional district than any other congressional district in the country for a crop disaster.

As a consequence, I think that we have to recognize that we had a program last year that, with all of the warts on it, it worked for thousands and thousands of farm families. If it were not for the program that we had in 1993, with the shortcomings that it had, we would probably find that as much as 10 percent of the farmers in our area would be going out of business.

So we have a passion to improve the program and I continue to work hard on that and I appreciate everyone coming out to, even by your presence, testify to the importance of this undertaking, but, at the same time, to recognize that we do have a program that has been beneficial.

I look forward to working with all of you in the months ahead and especially working with Ken Ackerman and the Federal Crop Insurance Corporation. I'll say it's been a breath of fresh air to have Mr. Ackerman come to Minnesota twice in 3 months to address farmers, bankers, Federal crop insurance agents about the problems that he sees, having just taken over management of this corporation, and trying to make the corporation responsive to the problems that have been identified.

Hopefully, in 1995, and if not 1995, by 1996, we will have a quality product out there and we won't have to have any more hearings on this topic for several years to come. Thanks, again.

Mr. JOHNSON. Thank you, Mr. Minge. Again, there is no lack of experts in Washington anxious to tell us their points of view and I think one of the refreshing things and one of the necessary things is that we spend some time listening to bankers, insurance people, and farmers themselves who have to live on a day-to-day basis with these decisions that are made from Washington.

It's very good that Mr. Ackerman has spent an enormous amount of time listening to people firsthand. So the nature of any end product is that it involves some compromise and some give and take and, no doubt, some things we'll like better than others.

But I am confident that if we work closely together, put aside all the partisan political nonsense that sometimes creeps into public policy today and focus on what makes common sense and what can efficiently deliver the greatest help to our producers, that we'll emerge from the end of this year in far better shape than we were when we went in.

So thank you to all of you for your contributions to this ongoing debate. With that, we will adjourn this subcommittee hearing.

[Whereupon, at 12:45 p.m., the subcommittee was recessed, to reconvene at the call of the Chair.]

[Material submitted for inclusion in the record follows:]



KENNETH D. ACKERMAN  
MANAGER, FEDERAL CROP INSURANCE CORPORATION,  
UNITED STATES DEPARTMENT OF AGRICULTURE  
BEFORE THE  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT, AND RURAL DEVELOPMENT  
COMMITTEE ON AGRICULTURE  
UNITED STATES HOUSE OF REPRESENTATIVES  
LUVERNE, MINNESOTA  
APRIL 5, 1994

We want to thank the Subcommittee for holding this hearing today on the Administration's proposed "Federal Crop Insurance Reform Act of 1994," which was first submitted to Congress by Secretary Espy four weeks ago. We, and particularly Secretary Espy, greatly appreciate the Subcommittee's attention to the goal of reforming Federal crop insurance and very much look forward to working with all Committee members in developing a plan that will work well both for American farmers and taxpayers.

As much as any program in Washington, Federal crop insurance has long needed change. The discontent with this program from farmers, taxpayers, insurance industry leaders, Congress, the President, and others, has focused on long-standing, well-documented problems:

- o Despite an annual crop insurance price-tag approaching \$900 million, Washington has had to step in with crop disaster relief payments to farmers in eight of the last eight years. Standing alone, crop insurance, with a nationwide participation rate of just 33 percent in 1993, simply has not provided an adequate safety net. These off-budget crop disaster programs have cost taxpayers an average \$1 billion per year over the last decade, and more than \$1.5 billion per year over the last six years. This conflict between crop insurance and crop disaster programs must end.
- o Crop insurance has chronically lost money. Since 1981, the Federal Crop Insurance Corporation's (FCIC) insurance operations have produced an overall "loss ratio" of about 1.47. That means that we have paid out about \$1.47 in claims for every \$1.00 collected in premiums and premium subsidies, not counting overhead costs. Any private business posting these numbers would have gone bankrupt years ago. Taxpayers are tired of picking up the tab. The program must be made more financially sound.

- o Farmers continue to complain that Federal crop insurance does not meet their needs. The program must be made more farmer-friendly with new products, more flexibility, and a good attitude toward listening to customers.

Last summer's disastrous Midwest flood and Southeast drought brought the problems of crop insurance into sharp focus for Americans across the country. Secretary Espy and President Clinton travelled extensively in the flooded areas and spoke directly with farmers about their problems and experiences in dealing with Federal programs designed to assist them. Again and again, they heard concerns. These problems ranged from lack of coverage for prevented planting, to inflexible price elections, to uncertainty about the availability and timeliness of help. On March 2, just four weeks ago, Secretary Espy announced a massive reform program that grew directly from last summer's experience.

In essence, we are recommending a two-pronged program to fix Federal crop insurance: (1) reform from the inside out -- administrative steps to make the program more financially sound and farmer-friendly, and (2) reform from the outside in -- the new "Federal Crop Insurance Reform Act of 1994."

### Federal Crop Insurance Reform Act of 1994

The Federal Crop Insurance Reform Act of 1994 is the centerpiece of our reform plan. This bill responds specifically to the central finding of our review following last summer's experience. Ad hoc crop disaster bills over the years have been an effective act of government for people in crisis. These relief programs have helped millions of Americans, farmers and non-farmers alike, survive the most difficult periods in their lives. But the reliance on this ad hoc relief that has developed as a result of an under-used crop insurance system, has created a level of uncertainty that is bad both for farmers and taxpayers.

In fact, the repeated availability of ad hoc relief has been a disincentive for many farmers to participate in the Federally backed crop insurance program.

In a crisis, a farmer without crop insurance, who depends on disaster relief, has no way of knowing in advance what his or her protection will be. Farmers do not know whether a disaster bill will be approved or, if approved, what payment level the bill will provide. Even then, a farmer suffering loss must hope that other farmers across the state, and in ten or twenty other states, are experiencing similar losses in

order to create the momentum for action. An examination of history reveals that victims of local disasters often get less than those of wider disasters, even though the individual farmers may suffer similar losses.

For example, victims of 1992's Hurricane Andrew in Florida, received aid at 50.04 percent proration while victims of this summer's Midwest flood received aid at 100 percent. Farmers with losses in states not involved in the large disasters found that congressional decisions affecting their livelihoods were being based upon factors totally disconnected from their circumstances.

What will happen if natural disaster strikes again next year? Farmers trying to plan their operations in a businesslike manner simply have no way to know.

Meanwhile, taxpayers are concerned that disaster aid is exempt from the budget discipline that controls spending in virtually every other area of government. At a time when deficit reduction is a paramount domestic priority, the price of these emergency programs continues to rise. The public rightly questions the point of having two expensive programs trying to address a single recurring problem -- crop disaster aid. Americans are generous in a crisis, but their patience has limits.

The Federal Crop Insurance Reform Act of 1994 resolves this situation by combining crop insurance and disaster aid into a single, unified, on-budget program. This requires two steps. First, the legislation expands the crop insurance program to protect farmers, financially, when natural disasters ruin or damage their crops. Second, it creates a legal barrier against future ad hoc crop disaster programs.

We view this proposal as being both a vital budget reform as well as a vital agricultural reform.

The legislation is built upon several key pillars:

- 1: **Catastrophic crop insurance coverage:** The Federal crop insurance program is supplemented with a new catastrophic coverage level available to farmers of insured crops for a nominal processing fee of \$50 per crop per county, up to \$100 per farmer per county. The processing fee may be waived for limited resource farmers. The idea is to make this coverage very economical and accessible.

Policies will cover prevented planting as well as actual crop losses, and will be based on actual individual farm yields.

This catastrophic plan will protect against yield losses greater than 50 percent at a payment rate of 60 percent of the expected market price -- a level comparable to disaster relief programs in recent years. The difference is this: catastrophic coverage is an individual insurance policy, not an ad hoc relief payment. It is a contract that a farmer can take to the bank as collateral on a loan. Even if no other farmer in the country suffers a loss, the farmer has the security of knowing that he or she is covered.

Under this approach, in a future agricultural crisis, farmers will know in advance the extent of their protection and taxpayers will know in advance the limits of their exposure.

- 2: **Buy-Up coverage:** Most producers desire higher levels of coverage than the catastrophic plan offers to protect their farm businesses. The legislation provides targeted subsidies for these higher insurance coverage levels. The out-of-pocket cost for coverage at the 65 or 75 percent yield levels will fall by about 10 percent. In addition, the bill gives FCIC the authority to offer policies covering 85 percent of yield. The more farmers buy higher levels of coverage, the more fiscally sound the system will be.
- 3: **Linkage to farm programs:** To ensure the widest participation, crop insurance coverage at the catastrophic level or above is linked to participation in Federal commodity price support, production adjustment, and conservation programs and Farmers Home Administration loans. We expect that this step will result in crop insurance participation rising from 33 percent to about 80 percent of insurable acres.

The purpose of linkage is to guarantee that, if disaster strikes, the bulk of U.S. farmers will be protected. We understand that farmers, like other Americans, do not like being told what to do, this is human nature. But the linkage proposal is fair and not onerous given the nominal cost of catastrophic coverage to farmers. Farmers also gain security for the future.

- 4: **Delivery:** Farmers may choose to obtain the catastrophic coverage either through a private reinsured company or through a USDA county office. Higher insurance coverages remain available only from private insurers. Our goal is to provide the most convenient and efficient means of quickly getting catastrophic



crop insurance coverage to the largest number of farmers. The private sector's insurance sales force will have a full opportunity to compete for the catastrophic market.

- 5: **Industry competition:** The legislation restructures premium rates to reflect both direct premium subsidies and the expense reimbursement allowance to reinsured companies. This provides a more realistic picture of the cost of the program both to farmers and taxpayers. More-efficient companies will be allowed to pass along lowered overhead costs in reduced rates charged to farmers, creating a more competitive market environment.
- 6: **Uninsurable crops:** A standing disaster program is created for crops not covered by crop insurance, with payments triggered by area-wide loss levels and protection levels similar to those under the catastrophic insurance plan. This way, no one is left out in the cold, the wet, or the dry.
- 7: **Repeal of standing disaster assistance authority:** Current authorities for standing crop disaster relief are repealed. In the future, the expanded crop insurance program will replace disaster bills as the Federal response to emergencies involving widespread crop loss.

As added protection, the legislation exempts appropriations for agricultural crop disaster assistance from designation as an "emergency" for purposes of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. This action essentially places future crop disaster bills on budget. They must be paid by off-setting spending cuts, rather than being allowed to proceed as "emergency" spending. Therefore, the primary vehicle for providing crop disaster assistance will be the Federal crop insurance program, as its legislation originally intended.

We project that the new program created by the Federal Crop Insurance Reform Act of 1994 will cost about \$8.1 billion for fiscal years 1995 through 1999. This represents a five-year savings of some \$750 million compared to the projected cost of the current Federal crop insurance program plus the average annual cost of ad hoc crop loss disaster relief programs over the past decade. Essentially, this plan takes the \$1 billion that Washington now spends each year on off-budget crop disaster programs and re-channels it into a more-disciplined, on-budget insurance plan.

We would like to implement this new program in crop year 1995 so that its benefits of certainty can be felt by farmers and taxpayers. This timetable is ambitious,

and will require Congress to do its part. Combining Federal crop insurance and disaster aid will be a complicated process involving training of personnel, rewriting of rules, and educating customers. We must do it right.

### Achieving Financial Soundness

Resolving the conflict between Federal crop insurance and disaster programs is not enough. We must, at the same time, also make Federal crop insurance more financially sound. The old way of doing business, where Federal crop insurance lost excessive amounts of taxpayer money year after year, is simply no longer acceptable. The 1993 Omnibus Reconciliation Act (OBRA) requires FCIC to achieve an overall projected loss ratio of 1.1 by the year beginning October 1995. The 1994 Agricultural Appropriations Act mandated additional cost-saving reforms. We are committed to, at least, meeting this loss ratio goal and obtaining actuarial soundness. American taxpayers will accept nothing less.

As part of the March 2 reform package, Secretary Espy released the FCIC's "Blueprint for Financial Soundness" mandated by OBRA 1993. This document outlines the specific steps that FCIC will take to improve the program's financial soundness and the savings we expect to result. Those steps include:

- A modified-APH (actual production history) program to better tie individual farmer's insurance coverage to their individual yield history. We will modify this program to permit a catastrophic yield adjustment beginning in crop year 1995;
- An expanded non-standard classification system (NCS) to identify those farmers with unusually high loss histories and adjust their rates to more sound levels;
- Greater emphasis on program compliance to prevent over payments based on errors and abuses; and
- Greater risk-sharing with private insurance companies.

Finally, we will work to make Federal crop insurance more farmer-friendly by introducing new products, more flexibility, and more responsiveness to complaints and ideas from farmers, agents, companies, and all participants in this program. Just recently, FCIC for the first time used the authority granted under the Food, Agriculture,

Trade and Conservation Act of 1990 to back financially an innovative new insurance product developed by the private sector. This process of partnership will continue.



The challenge of reforming Federal crop insurance is complex and difficult, but we believe our plan is a responsible one and will be responsive to the needs of American farmers and taxpayers. We hope that Congress will act expeditiously on the legislation so that we may implement the new program for the 1995 crop year.

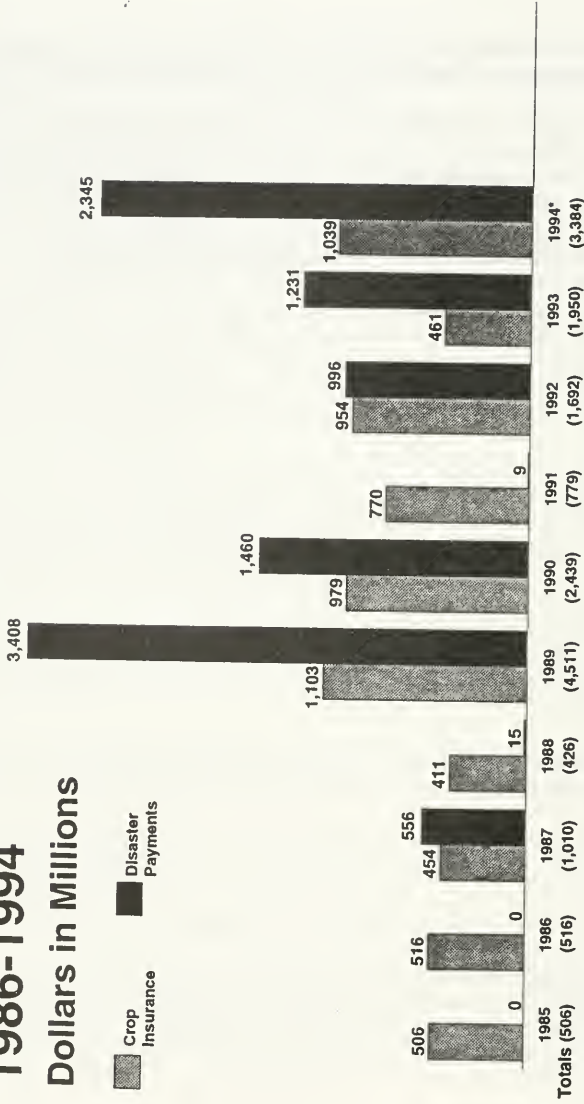
We will be pleased to answer any questions you may have.

(Attachments follow:)

# Federal Outlays for Crop Emergency Aid 1986-1994

## Dollars in Millions

 Crop Insurance  
 Disaster Payments



Totals (506) (516) (1,010) (426) (4,511) (2,439) (779) (1,692) (1,950) (3,384)

Crop Insurance, 6 Year Average (1989-94) 884-10 Year Average (1985-94) 719  
 Disaster Payments, 6 Year Average (1989-94) 1,575-10 Year Average (1985-94) 1,002

\*Estimate



# Crop Emergency Aid Projected Taxpayer Savings

Dollars in Millions

	<b>Total 1995-99</b>
Current Divided Approach:	
Crop Insurance:	<b>3,900</b>
<i>Ad Hoc</i> Disaster Relief:	<b><u>5,000</u></b>
Total Current	<b>8,900</b>
New Combined Program:	<b>8,100</b>
Taxpayer Savings:	<b><u>\$750*</u></b>

Source: Budget of the United States Government Fiscal Year 1995

\*Minimum Based on Rounding Off in Budget

## UNITED STATES CROP VALUE SUMMARY

## INSURED CROPS

NATIONAL VALUE OF ALL CROPS \$92,385,311,215

CROP	REPORTED ACRES	DOLLAR VALUE	PERCENT OF TOTAL VALUE
Corn, Grain	66,950,480	18,008,691,703	19.493
Soybeans	56,498,545	11,213,520,994	12.138
Wheat	69,353,948	7,296,722,323	7.898
Cotton, Upland	11,501,930	4,884,989,171	5.288
Tobacco	732,740	2,829,953,119	3.063
Potatoes	1,363,816	2,396,315,957	2.594
Nursery, Container		2,375,462,434	2.571
Corn, Silage	6,124,202	1,954,333,349	2.115
Oranges	770,214	1,515,565,984	1.640
Apples	352,114	1,408,875,579	1.525
Peanuts	1,807,325	1,256,883,370	1.360
Sorghum, Grain	9,086,031	1,203,379,180	1.303
Sugar Beets	1,375,468	1,125,379,300	1.218
Rice	2,812,429	1,040,085,810	1.126
Tomatoes - Fresh	137,578	924,639,769	1.001
Barley	7,505,000	906,414,000	0.981
Grapes - Processed	408,090	885,062,003	0.958
Sugarcane	723,840	813,706,190	0.881
Raisins	266,737	677,942,810	0.734
Beans, Dry	2,099,403	660,075,798	0.714
Almonds	413,202	639,048,900	0.692
Tomatoes - Processed	353,911	617,956,960	0.669
Grapes, Table	90,343	494,035,398	0.535
Onions	146,180	493,421,041	0.534
Peaches	117,823	482,137,001	0.522
Oats	6,015,517	412,485,275	0.446
Grapefruit	168,928	354,979,543	0.384
Lemons	59,816	347,117,610	0.376
Pears	50,031	281,428,961	0.305
Plums - Fresh	45,199	265,029,699	0.287
Sweet Corn - Fresh	191,672	256,059,591	0.277
Walnuts, English	184,837	254,412,036	0.275
Sunflowers	1,854,495	247,439,110	0.268
Peppers	53,513	225,972,741	0.245

November 5, 1992

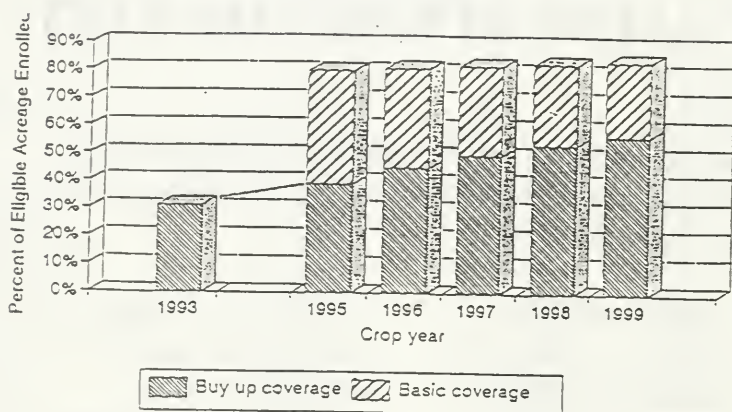
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# CROP EXPANSION FEASIBILITY STUDY LIST

*Feasibility studies are currently underway on the following crops in anticipation of developing new crop programs:*

AVOCADOS	LETTUCE-HEAD
ASPARAGUS	LETTUCE-LEAF
BLUEBERRIES	MUSHROOMS
BROCCOLI	NURSERY CROPS
CANOLA	PECANS
CANTALOUPE	PEPPERMINT
CARROTS	PINEAPPLE
CAULIFLOWER	PISTACHIOS
CELERY	SEED-FORAGE
CHERRIES-SWEET	SEED-LAWN
HAY-ALL	STRAWBERRIES
HAY-HAYLAGE	SWEET POTATOES
HAY-OTHER	WATERMELON

## Participation Under the Reform Proposal (with linkage)



- Under the reform proposal, producers who participate in price support and income support programs or who have loans under any program of the Farmers Home Administration are required to obtain at least the catastrophic level of insurance for *all crops of economic significance* farmed in the county in which that producer has an interest. The linkage with commodity programs will ensure that participation in the crop insurance program is 80 percent of eligible acreage in 1995.
- Requiring producers to obtain catastrophic crop insurance for *program crops only* would potentially lower the crop insurance participation rate as significant crops (e.g., soybeans) would be largely unaffected. Participation rates would likely be only as high as 65-70 percent of eligible acreage.
- If crop insurance is not linked to commodity program eligibility it is likely that crop insurance participation will be only 55-60 percent of eligible acreage, at least in the early years of program operation. Lower participation rates could encourage ad hoc disaster assistance which would further undermine participation.



TARGETED SUBSIDIES FOR BUY-UPS  
COMPARISON OF FARMER'S OUT-OF-POCKET EXPENSE

WITH TARGETED SUBSIDY FOR BUY-UPS:

Coverage Level	Current Cost	Cost Under Reform Act	Difference
65% of yield	\$296	\$246	-17 percent
75% of yield	\$623	\$574	- 8 percent

WITHOUT TARGETED SUBSIDY FOR BUY-UPS:

Coverage Level	Current Cost	Cost Under Reform Act Without Buy-up Subsidy	Difference
65% of yield	\$296	\$282	- 5 percent
75% of yield	\$623	\$609	- 2 percent

Assumptions:

100 acres planted/ 100 bushel yield/ \$1.00 price election  
 10 percent premium rate for 75 percent coverage

Stated costs are the farmer's out-of-pocket cost for the coverage after deducting the subsidy.

FEDERAL CROP INSURANCE CORPORATION  
 PREMIUM/INDEMNITIES/LOSS RATIOS  
 1981 - 1993 (Crop Year Data)  
 (dollars in thousands)

YEAR	PREMIUM	INDEMNITIES	LOSS RATIO
1981	\$379,169	\$408,101	1.08
1982	398,671	528,157	1.32
1983	291,353	587,691	2.02
1984	435,588	639,969	1.47
1985	439,733	684,364	1.56
1986	381,753	616,993	1.62
1987	366,640	369,163	1.01
1988	437,654	1,053,775	2.41
1989	820,763	1,215,763	1.48
1990	838,040	1,029,581	1.23
1991	737,146	953,257	1.29
1992	758,768	920,901	1.21
1993 (est.)	784,652	1,412,374	1.80
TOTAL 1981 - 1993	\$7,069,930	\$10,419,089	1.47
AVERAGE 1981-1993	\$543,841	\$801,468	1.47

1992 Figures - Actuals from Oct. 27, 1993 Summary of Business  
 1993 Figures from Damage Report of Oct. 20, 1993.

**CORN - PARTICIPANT****Comparison between Disaster Assistance and MPCl proposed Catastrophic Coverage****\*\*DOES NOT INCLUDE DEFICIENCY PAYMENTS RECEIVED\*\***

**Assumptions:**

- APH yield = 120 bushels
- ASCS Yield = 100 bushels
- MPCI price = \$2.40/bu
- ASCS target price = \$2.75/bu
- ASCS deficiency pymt = \$0.45/bu
- Acres planted = 90

	<b>Farm</b>	<b>Per Acre</b>
Disaster (.5004 pro-rate)	\$3,952.00	\$43.91
Disaster (No pro-rate)	\$7,898.00	\$87.76
Catastrophic Protection	\$7,776.00	\$86.40

## FEDERAL CROP INSURANCE CORPORATION

## CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

## CORN NON-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	\$ PER ACRE		
100	80	40	86
90	67	34	69
80	54	27	52
70	41	20	35
60	27	13	17
50	18	9	0
40	0	0	0

## ASSUMPTIONS:

COUNTY AVERAGE YIELD

120 BUSHELS PER ACRE

DISASTER ASSIST. PAYMENT

\$1.12 PER BUSHEL

APH YIELD (REFORM PLAN)

120 BUSHELS PER ACRE

PRICE ELECTION

\$2.40 PER BUSHEL



## FEDERAL CROP INSURANCE CORPORATION

## CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

## SOYBEANS

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	\$ PER ACRE		
100	100	53	80
90	88	44	64
80	71	36	48
70	53	27	32
60	35	18	16
50	18	9	0
40	0	0	0

## ASSUMPTIONS:

COUNTY AVERAGE YIELD  
DISASTER ASSIST. PAYMENT  
APH YIELD (REFORM PLAN)  
PRICE ELECTION

45 BUSHELS PER ACRE  
\$3.91 PER BUSHEL  
45 BUSHELS PER ACRE  
\$5.90 PER BUSHEL

## COTTON

## Comparison between Disaster Assistance and MPCl proposed Catastrophic Coverage

## EXAMPLE #1

Assumptions:      APH yield = 406 pounds  
                               ASCS Yield = 406 pounds  
                               MPCI price = \$0.53/lb  
                               ASCS target price = \$0.729/lb  
                               ASCS deficiency pymt = \$0.186/lb  
                               Acres planted = 92.5

	<b>Farm</b>	<b>Per Acre</b>
Disaster (.5004 pro-rate)	\$3,813.00	\$41.22
Catastrophic Protection	\$5,971.25	\$64.55
Disaster (No pro-rate)	\$7,620.00	\$82.38

## EXAMPLE #2

Assumptions:      APH yield = 383 pounds  
                               ASCS Yield = 406 pounds  
                               MPCI price = \$0.53/lb  
                               ASCS target price = \$0.729/lb  
                               ASCS deficiency pymt = \$0.186/lb  
                               Acres planted = 92.5

	<b>Farm</b>	<b>Per Acre</b>
Disaster (.5004 pro-rate)	\$3,813.00	\$41.22
Catastrophic Protection	\$5,633.00	\$60.90
Disaster (No pro-rate)	\$7,620.00	\$82.38

# COMPARISON BETWEEN CATASTROPHIC RISK PROTECTION AND DISASTER ASSISTANCE

## WHEAT - PARTICIPANT

Bushels produced per acre	Catastrophic Risk Protection	With .5004 Pro-rate	With No Pro-rate
0	\$32.18	\$19.44	\$38.86
5	\$22.43	\$15.07	\$30.11
10	\$12.68	\$10.69	\$21.36
15	\$2.93	\$6.31	\$12.61
20		\$1.93	\$3.86
25			
30			

## WHEAT - NONPARTICIPANT

Bushels produced per acre	Catastrophic Risk Protection	With .5004 Pro-rate	With No Pro-rate
0	\$32.18	\$16.61	\$33.20
5	\$22.43	\$12.42	\$24.82
10	\$12.68	\$8.22	\$16.43
15	\$2.93	\$4.03	\$8.05
20			
25			
30			

### ASSUMPTIONS:

33 Bushel/Acre ASCS yield and APH yield  
 MPCl Market price of \$3.25  
 Target price of \$4.00  
 Loan price of \$2.58  
 Flex acres calculated at 65% of target



United States  
Department of  
Agriculture

Federal Crop  
Insurance  
Corporation

Office of  
The Manager

Washington, D.C.  
20250

Honorable Collin Peterson  
U.S. House of Representatives  
1133 Longworth House Office Building  
Washington, D.C. 20515-2307

Dear Congressman Peterson:

This letter provides answers to questions you asked at the field hearing for the Subcommittee on Environment, Credit, and Rural Development of the House Committee on Agriculture in LuVerne, Minnesota, on April 5, 1994.

You asked about the difference in farmers' costs if the processing fee for catastrophic coverage is assessed at the rate of \$0.50 per acre rather than the amount of \$50 per crop as contained in the crop insurance reform proposal. The Department of Agriculture (USDA) estimates that the effect would be minor for farmers in general. The fee of \$50 per crop has an estimated cost to farmers of \$190-200 million during fiscal years 1995-1999, whereas a fee of \$0.50 per acre would cost \$230-240 million for the same period. The reason for this relatively small difference is that the average crop policy is estimated to include 120 acres, which results in an average cost of \$60 per policy at the per acre fee.

Of course, the per acre fee changes the distribution of costs among farmers. Those producing fewer than 100 acres of a crop would pay less than the \$50 fixed fee. This appears to establish a more equitable distribution of costs in terms of ability to pay. However, USDA believes that the cost of establishing the catastrophic coverage is largely independent of acreage. Costs do not change markedly for issuing the policy and handling the paperwork for varying acreages. This is the reason USDA proposed, and continues to support, the concept of charging a fixed fee per policy, with waivers for limited resource farmers.

You also asked about the effect of different subsidy arrangements for the catastrophic coverage. Specifically, you wished to know the potential differences in costs of varying catastrophic coverage levels and prices (such as 35 percent yield, 100 percent price [35/100]). The difference (in millions of dollars) for fiscal years 1995-1999 relative to the proposed plan of 50 percent coverage, 60 percent price (50/60) are shown below:





Honorable Collin Peterson

2

Alternative Coverage/Price	Cost	Difference
50/ 60	\$1,675	N/A
35/ 100	1,400	\$275
50/ 40	1,120	555
50/ 50	1,400	275
50/ 55	1,550	125

The costs of a plan that provides 40 or 45 percent coverage of yield at 50 percent of price would fall between the estimates for 50/40 and 50/50.

Please let us know if you wish to receive additional information concerning the reform proposal and estimated costs of alternatives.

Sincerely,

Kenneth D. Ackerman  
Manager

Statement of Al Christopherson, President, Minnesota Farm Bureau Federation  
House Agriculture Committee, Subcommittee on Environment, Credit and Rural  
Development field hearing, April 5, 1994

Subject: Clinton Administration's Federal Crop Insurance Reform Proposal

Thank you for this opportunity to comment of federal crop insurance reform and its impact on Minnesota farmers. I would like to commend Subcommittee Chairman Johnson and Congressman Minge for bringing this important hearing to Minnesota to hear from us firsthand.

I would also like to commend the Clinton Administration for recognizing the tremendous need for reform of the federal crop insurance and disaster programs. With a national utilization rate of less than 30 percent, and average annual disaster payments of over a billion dollars, the time has come to completely overhaul a system that isn't working for farmers or taxpayers.

Secretary Espy has accurately commented that the current program's high premiums and spotty coverage combine with the disaster program to virtually guarantee low participation in the program. The time to reform the system in a serious and comprehensive manner is long-overdue. The existing combination of inadequate coverage and disaster programs satisfies no one involved.

The stated goal of the Clinton reform proposal is to boost participation in the crop insurance program by providing adequate coverage to producers, and thereby eliminate the need for emergency disaster assistance. The Farm Bureau fully agrees with this central goal, and are committed to helping this restructuring occur. Farm Bureau policy states that crop disaster programs and crop insurance should be combined into a single voluntary program designed to obtain the greatest amount of participation. We can all agree that today's pattern should be replaced with a more common sense and responsible model.

As you know, the Clinton plan compels farmers to purchase the minimum amount of federal insurance on eligible crops to participate in any USDA programs. This mandatory part of the program is our most fundamental practical and philosophical objection to this reform plan. An unattractive crop insurance policy cannot be made pretty to farmers simply by mandating program participation. This avoidance of the crop insurance program's basic inadequacies will not result in a long-term solution to the problem.

We need a program that makes crop insurance a good idea in the free marketplace. The shortcut provided by mandated coverage virtually assures that budgetary and other pressures will continue to force a federal crop insurance program that simply does not make sense economically for the typical farmer. That is precisely why participation is so low nationwide today.

The mandatory provisions, combined with a cost that is bound to grow with time and budgetary pressures, also establishes a state-control mechanism that could become extremely costly to farmers. Although the fees for catastrophic coverage are very limited in the initial proposal, fiscal realities suggest that this pricing system would not remain inexpensive long.

Farm Bureau policy has consistently opposed mandatory linkages between crop insurance and farmer program eligibility. The more cross-compliance restrictions and mandatory conditions we add to federal programs, the less basic business decisions are left up to the farmer in the marketplace.

In addition, Farm Bureau members oppose the program's continued reliance on yield as a trigger mechanism for insurance payout. Coverage based on dollars per acre would make much more sense. Reliance on yield as the determinant tends to skew the program in favor of high-risk production acres and makes it much more likely that gaps in coverage will exist.

Although we recognize that full consideration of crop insurance reform may not occur until the 1995 Farm Bill, pledge our commitment to working with the Administration and Congress to design a workable program that meets all of our goals.

I am convinced that all parties can come together to fix a system that is clearly broken. Again, however, in order to do that, we simply must design an insurance program that good businesspersons will want to purchase. Wider mandated coverage simply eliminates that possibility and further complicates the maze of government requirements.



April 5, 1994

United States House of Representatives

Committee on Agriculture

Sub-Committee on Environment, Credit and Rural Development

The Federal Crop Insurance Reform Act of 1994

Comments to the hearing on the Administration's Crop Insurance Proposal

VFW Hall in Luverne, Minnesota

*Testimony provided on behalf of the Minnesota Corn Growers  
Association and the Minnesota Soybean Growers Association  
by Richard Peterson of Mountain Lake, Minnesota*

I would like to thank the committee for coming to Minnesota to hear our concerns regarding Federal Crop Insurance Reform. My name is Richard Peterson and I am here today to represent the Minnesota Corn Growers Association and the Minnesota Soybean Growers Association. I am a farmer from southwestern Minnesota, by Mountain Lake, where I grow corn and soybeans.

We feel the catastrophic coverage for insurable crops is adequate for it's intended purpose. The cost per crop, not to exceed \$100.00 per producer, per county, will penalize producers farming in more than one county if language is left as is. It would be beneficial to address limits for producers farming in multiple counties or states.

In requiring producers to obtain this coverage to be eligible for price support, production adjustments and conservation programs, you will most likely find some who object. Our position is that it seems reasonable and we do not object to these requirements.

We are pleased that producers will have a choice under the dual delivery system. They may sign up in programs and insurance at the same time, or they may complete applications for the catastrophic coverage when they buy additional coverage from their crop insurance agent. The only concerns we have are the costs to train and/or the increases in paperwork this may cause our government offices, currently ASCS offices, which would be renamed Farmers Service Agency under the restructuring of the USDA.

The use of Actual Production History (A.P.H.) for the four (4) previous crop years, building up to ten (10) years, along with transitional yields (T-yields) if A.P.H. is not available, is a step in the right direction. Prevented planting and disaster considerations should allow for A.P.H. and county averages to be maintained at realistic levels.

We support the requirement for producers to insure all land (production) in the county for that particular crop. This broad coverage will help the actuarial soundness of catastrophic and higher levels of coverage.

The buy-up coverage needs to be written as an incentive rather than a dis-incentive for the 75% coverage level. These premium rates should be set much like hail insurance on a county by county basis. Whatever levels of premium subsidies are available, it should favor the 75% or higher, rather than lower. Doing this will contribute more premium dollars to the insurance program, with a greater percentage of producers participating, because the coverage will more closely reflect the cost of production. Extremely broad coverage, including most all producers, will be necessary to eliminate the political need for ad hoc disaster programs. Higher levels of coverage will help accomplish this. We would also favor consideration of 85% coverage level being available for farmers who wish to purchase it.

We have a concern that the proposed Group Risk Plan doesn't appear to make allowances for the variation of productivity within counties. Many counties vary widely from rich productive soils to lessor or upland soils within county lines. The Market Value Protection Plan is new and will be more slowly accepted. We feel the plan has potential and should be offered through private insurance agents who can assist the producer with this more technical plan. This protection plan may need to be tried as an experiment or on a trial basis to check out its effect for both the producer and the protector.

In addition, we want to be certain preventative and late plantings for corn and soybeans are included in basic coverage. Also, we would like to improve the price selection formula to be more realistic for current corn and soybean prices.

We feel that the Administration's Crop Insurance Proposal is a big step in the right direction and applaud all those involved in making the progress this proposal brings. We wish to thank Congressman Minge for requesting this hearing, so that additional discussion has the opportunity to enhance this proposal's outcome.

**PRESENTED BY FRANCIS BUSCHETTE,  
MEMBER OF MINNESOTA ASSOCIATION OF WHEAT GROWERS  
RENVILLE, MN**

My name is Francis Buschette and I farm near Renville, Minnesota.

I am testifying on behalf of the Minnesota Association of Wheat Growers.

We appreciate this opportunity to express our views on the proposed Federal Crop Insurance reform and whether it could adequately replace disaster programs.

Let me begin by saying that the Minnesota Association of Wheat Growers would support a significantly improved Federal Crop Insurance program over the disaster programs we have had in the past.

We recognize the funding problems associated with having both an improved crop insurance program and a standing disaster program. However, we believe, an adequate, affordable and proven new insurance program should be operational before all disaster authority is abandoned. A strong basis for development of a viable new program is on the board. But until such a time that a new regime of yield and price risk protection is proven to be effective, we urge continued standby authority for disaster relief programs.

On the specifics of crop insurance reform, we strongly support the Actual Production History (APH) based on four years; however, a high



priority for FCIC should be to develop and implement a catastrophic yield clause. This would stop the APH yield reductions for producers in a region that has experienced abnormally high losses during the four years of the APH. This need is very evident in Minnesota when you consider that the losses due to a 100 year flood will account for 25 percent of an individual's APH. On the positive side, the decision to use individual APH as a base for catastrophic yield coverage instead of an average or ASCS yield is very important and is a welcomed improvement over the disaster program.

In another comparison, we find that the disaster program has an advantage over Federal Crop Insurance when it comes to de minimus yields. The lack of a de minimus yield for crop insurance has been a glaring negative factor for growers, especially in light of ASCS implementing a de minimus yield in last year's disaster program. This inequity needs to be corrected.

For many wheat producers, the catastrophic coverage will not be adequate to meet their risk management needs, so they will want to purchase additional insurance. The reform proposal, with additional funding, should provide reductions in premiums at the higher coverage levels. This would be very important for long-term crop insurance customers who will want to see benefits from reform.

One possible benefit could be reduced premiums at the 65 and 75 percent coverage levels under the proposed reforms. Nevertheless, what effect this reform proposal will actually have on premiums for increased coverage is something we'll want to know.

Finally, we believe that additional premium subsidies should be extended to the 65 and 75 percent coverage levels, which would help make this reform package adequate enough to replace disaster programs.

Thank you for this opportunity to express our views.

Testimony  
on Federal Crop Insurance Reform Act 1994  
Before the U.S. House Committee  
on  
Agriculture Sub-Committee on General Farm Commodities

April 5, 1994  
Luverne, Minnesota

Presented by  
Gerald Lacey President of  
National Barley Growers Association  
Campbell, Minnesota

Good Morning. My name is Gerald Lacey. I grow barley, wheat and sugarbeets with my son on a farm near Campbell, Minnesota. I am currently serving as the President of the National Barley Growers Association. It is an honor for me to present this testimony in front of this select committee. We, as farmers, understand that reform is needed to keep abreast with the ever changing world. We also understand the difference between meaningful reform and budget driven, political reform. It is difficult for me to testify upon this proposal when the Senate just voted to reduce expenditures for the proposal by \$250 million. I would hope that you as elected officials would put aside the political bickering and assist us producers in establishing a Federal Crop Insurance policy that would adequately protect us from the whimsical ways of Mother Nature. I would like to address three main concerns in my testimony:

1. Same percentage rate of subsidy for 65%, 75% and 85% price selection level.
2. Allow ASCS to sell policies.
3. Support a Gross Revenue Insurance Pilot Program for Minnesota, Mississippi and North Dakota.

1) Same percentage rate of subsidy for the 65%, 75% and 85% price selection levels:

We agree that a catastrophic coverage must be offered to producers in order to get participation up to that level where everyone will feel comfort-

able that there will be no more ad hoc disaster bills. We would suggest increasing the rate of subsidy provided for enrollment in the 65 percent level and also for the 75 percent level and the proposed 85 percent level of price protection. Producers are being pushed into the higher price selection levels because of the constant increase in the cost of production.

## 2) Administrative Costs:

I have taken out Federal Crop Insurance from my agent since 1989. During that time I have helped him enjoy a very good standard of living because of the guaranteed commission. I would like to suggest that we allow the ASCS offices the opportunity to sell the Federal Crop Insurance policies. This is not new or unique, but something they have handled in the past. I would also suggest that the ASCS offices charge a 10 percent fee to cover their costs of doing business. Perhaps this could be done on a pilot project basis. I make this suggestion in the hopes that the insurance companies will be challenged to make their money competitively in the market, not through a controlled, guaranteed system. The burden of balancing the budget should not have to be born solely by the producers and not the rest of the industry.

## 3) Pilot Program

As a representative of the Minnesota Barley Growers Association I would also like to speak in support of introducing a Gross Revenue Insurance



Program on a trial basis in Minnesota, Mississippi and North Dakota. My thoughts behind this are fairly simple. Lenders are not all that concerned about how many bushels a producer grows per acre but rather in how many dollars per acre that farmer produces. We would like to see if we couldn't devise a program that would have a farmer insure his gross revenue. Although many of the technical points will have to be worked out, what I envision is a program whereby a producer would be able to insure his minimum gross income based on perhaps his last 5 years average gross income as shown on his individual tax form.

I would like to thank the Committee for listening to my testimony and would be happy to answer any questions you may have.



Office of the President

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STATEMENT OF

DAVID J. FREDERICKSON, PRESIDENT

MINNESOTA FARMERS UNION

SUBMITTED TO

SUBCOMMITTEE ON ENVIRONMENT,

CREDIT, AND RURAL DEVELOPMENT

UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 5, 1994

LUVERNE, MINNESOTA

I want to thank the Chairman and members of the sub-committee for holding this hearing in Representative Minge's District. The Second Congressional District was one of the most severely affected by the flooding of 1993.

The following is written testimony explaining Minnesota Farmers Union's views on a variety of issues related to crop insurance reform.

1)The adequacy of catastrophic coverage - The current proposal would provide coverage at 60 percent of the target price, on losses exceeding 50 percent. This yields coverage at \$.30/\$1.00 of loss in years where the producer suffers a total loss. This compares to the 1993 disaster program which paid \$.42/\$1.00 of loss and the 1992 program which paid \$.19 -\$.21/\$1.00 of loss, (depending on whether or not the producer had crop insurance.)

From a lender's perspective, the catastrophic coverage is superior, since it can be available to producers whether or not they reside in a disaster-declared county.

If funding permits, it would be helpful to increase the sixty percent to a figure closer to 100 percent of target price, still using the 50 percent deductible.

Catastrophic coverage should include coverage for late and prevented planting, as well as disaster-related quality loss.

2) The processing fee - The processing fee is very reasonable. The draft language states that the fee will be waived for those who purchase additional coverage. How will this work for those who obtain the catastrophic level of coverage at the Farm Service Agency, and then obtain additional coverage through a private agency? Who covers the reimbursement?

- 2

3) Mandatory coverage - National Farmers Union supports making coverage mandatory for farm program participants. However, farmers may have a different position if the processing fee were to be increased.

4) The dual delivery system - Dual delivery offers producers the option of where to obtain the catastrophic coverage. It also raises some questions. Who will do the adjusting? Who will pay the administrative cost if the producer obtains coverage from both the FSA and the private agent?

5) The use of actual production history (APH) - the use of actual production history (APH) should make crop insurance a better product for producers who are above the county average. It should also help in preventing farmers from farming the program. However, years in which the producer resided in a disaster - declared area should be excluded from the APH. This could be accomplished by using the last four non-disaster years of production history.

6) The requirement to insure all land in the county for a particular crop - It is appropriate to require a producer to include all land in a county for a particular crop. However, dry-land crops, e.g. wheat, should not be averaged in with irrigated crops. These should be separate units.

7) Adequacy of buy-up coverage for insurable crops - Buy-up coverage should extend higher than the 75 percent election.

8) Provisions of non-insured crops - This question is unclear. Does "non-insured" mean no insurance is available or that the producer chooses not to purchase insurance? NFU recommends that a producer be required

- 3 -

to establish production history before being allowed to insure a crop that has never been planted in previous years. This will guard against producers farming the program.

9) The amount of premium subsidies at different levels of coverage - If the goal is to encourage producers to purchase adequate coverage, than a subsidy should be offered as a percent of the premium, instead of as a flat dollar amount. The current subsidy, which is the same whether the producer purchases coverage at the 65 or 75 percent level, encourages producers to purchase only 65 percent coverage.

10) Likelihood that ad hoc disaster programs will no longer be available - Farmers Union supports maintaining the Secretary's authority to call for disaster assistance, if needed, recognizing that these reform provisions will significantly reduce the need for disaster assistance.

In conclusion, I would like to include for the record the SPECIAL ORDER OF BUSINESS relating to crop insurance adopted by the delegates at the National Farmers Union Convention in March 7, 1994.

(Attachment follows:)



SPECIAL ORDER OF BUSINESS  
Federal Crop Insurance Reform

Adopted by National Farmers Union  
March 7, 1994

We commend the Administration for supporting the reform of the of the Federal Crop Insurance program.

We support provisions which would provide catastrophic coverage as a benefit of participation in commodity programs or Farmers Home Administration lending programs.

We support allowing producers to base yield coverage on actual production history (APH).

We support offering producers assistance to purchase coverage above the catastrophic level.

We support offering coverage for late or prevented plantings.

We call on Congress to make the following additions to the above-stated provisions.

1. We support increasing catastrophic coverage from the proposed 60 percent of coverage to 100 percent of the expected market price.

2. We support allowing producers to exclude disaster years from APH calculations.

3. We support adding an additional level of coverage higher than the 75 percent level.

4. We support basing the expected price on the higher of the target price or the 5 year rolling average of the 12 month market price.

5. We support requiring insurance companies to offer both APH and area yield options to producers.

6. We support maintaining the Secretary's authority to call for ~~disaster~~ assistance, if needed, recognizing that these reform provisions will significantly reduce the need for disaster assistance.

APRIL 5, 1994

## ORAL TESTIMONY OF MIKE CROWLEY

CROP AGENCY, INC.

I would like to thank the Chairman, Congressman Johnson, the Congressional Committee and Mr. Ken Ackerman for the opportunity to speak here today.

I farmed for 7 years, worked in the crop insurance industry as a company representative for several years and for the past 7 years have worked as an independent insurance agent working directly with the farmer and crop insurance needs. These experiences have allowed me to observe all aspects of the needs of the farmer regarding the crop insurance program.

Crop insurance offers our farmers the opportunity to protect themselves from financial disaster. The existing program needs some changes in order to meet today's needs. I would like to present some of the changes that I feel will enhance the program and provide the necessary disaster protection that today's farmer needs. I will use the male pronoun, he; although I realize that there are many female farmers in our area both as independents and partners.

As we look at the existing program in our area, the APH program has worked fairly well. The problem has been that we have had a number of years, 1988 and 1993 for example, that have been catastrophe years. When these two years are figured into the APH calculation the farmer's ability to insure at adequate levels is greatly reduced. A key factor for the program to work for the farmer is that it be set up so that an adequate amount of protection can be purchased. Due to bad weather conditions the farmer may be placed in a high loss situation which he has no control over. The farmer certainly doesn't choose the bad weather and the loss has nothing to do with his farming practices. I would like to see the catastrophe years removed from the 1.1 loss ratio that is being calculated. If a farmer goes over the 1.1 loss ratio today, he is subject to the non-standard classification level. This results in higher rates and higher expenses to him.

In the past few years we have seen a lot of changes in farm size. One farmer increases his number of acres, another decreases his farm size and another quits altogether. This presents another problem for the crop insurance program. This same problem exists for the new farmer just beginning his farming career. The new producer and the farmer increasing his operation is limited to the T-yield factor. I would like to see this T-yield factor removed from the calculation and replaced with a straight ASCS yield. This should apply for 2 to 3 years, allowing the farmer to have adequate protection and to establish his normal yield protection limit. The program should allow

this new land to be insurable at level 3 (75%) during this 2 to 3 year period.

I have several concerns about the new proposed crop insurance program. As I now understand it, the proposal is to give each farmer 50% coverage for a flat fee of \$50.00 per crop or \$100 per county. I feel that this will give the farmer a false sense of security since it only covers the bottom level of coverage. Will his banker be willing to accept this as security? If he chooses the minimum 50% level of coverage and there is another disaster, I think that there will be tremendous pressure put on the Federal Government to grant additional disaster aid. I understand there are additional by-up policies. I have not seen any costs for these additional by-ups so the question still remains - will these policies be at a fair price or cost prohibitive to the farmer. The aim of the new program is to eliminate the disaster program. It will not happen with the 50% level of protection. We will have the same program that is currently in force - but it will have cost more money!

The program also proposes a dual delivery system. These being the new Farm Service Agency and the independent agent. This will not be efficient. First of all is the expense of hiring and training the Farm Service Agency office staff - who will pay this cost (taxpayers?)! Secondly, it is going to be very confusing to the farmer to have 2 different delivery systems and explanations of the program.

Under the current system the farmer pays for his coverage on a subsidized basis. What is being proposed is to use the disaster dollars to give him his coverage. It seems that it would make more sense to use those current dollars (disaster money) each year to shore up the existing system with adequate protection. Subsidize the 75% level at a higher rate and most farmers will be properly protected at a lower cost to the government.

I believe that the producers in our area would rather have a higher level of coverage at a fair rate. If we could get more producers to purchase the 75% level of coverage, with 30% subsidies, I believe that we could make the program more cost effective for the farmer and the government. The farmer would receive a higher level of coverage. To make this actuarially sound, we need to have every farmer participating in the Crop Insurance Program. With every producer using crop insurance, all additional disaster programs would be eliminated.

Another tremendous problem with the proposed system is charging the farmer a maximum of \$100 for the 50% level per county with no regard to the great differential in farm size. Is it fair to charge the farmer with 160 acres the same dollars as the farmer with 800 acres? The exposure to the government and tax payer is much larger with the large farm. Need - for the farmer in disaster relief may be the same or greater. Each farmer/producer should be obligated to pay his share.

In summary, what I really feel needs to be accomplished with the crop insurance program is increased guarantees and the use of subsidy dollars to improve the current program. Today's farmer is willing to pay his fair share - if he is getting adequate protection. He doesn't want a 'free program' that still leaves him with a great deal of uncertainty. He deals with uncertainty every day when he checks the weather! We need to provide these valuable business people with guaranteed protection, at a reasonable premium - with a workable system. I ask for your support in not creating another area for Federal bureaucracy and control. Allow the farmer choices and opportunities - and most importantly, essential support. I ask you to use existing dollars to modify the current system into one that is equitable and fair to all. This will include the farmer and all U.S. citizens.

Thank you for allowing me this time to speak to you. I appreciate the opportunity to present my ideas and thoughts on this very important issue.

(Attachment follows:)



TO: COMMITTEE ON AGRICULTURE  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT AND RURAL DEVELOPMENT

FROM: MIKE CROWLEY  
CROP AGENCY, INC.  
1508 N. DOUGLAS  
WORTHINGTON MN 56187  
TELEPHONE: (507)372-7411

REGARDING: WRITTEN TESTIMONY ON VARIOUS ISSUES ADDRESSED IN THE MARCH 18, 1994 LETTER AND APRIL 5, 1994 HEARING DEALING WITH THE FEDERAL CROP INSURANCE REFORM ACT OF 1994

1. ADEQUACY OF CATASTROPHIC COVERAGE FOR INSURABLE CROPS Coverage is available to the farmer at this time but the complaint that we hear most often is that the coverage is not enough. The current coverage will cover most production expenses but in the unpredictable business of farming this level of protection may not be enough to keep him in business. What the farmer wants is a higher guarantee level which should probably be 85% of their normal guarantee. Today most farmers only purchase the level 2 coverage at 65% of their guarantee at the price election. If they could purchase 75 to 85% of their guarantee at the same subsidized rate as level 1 and 2 they would be able to afford the coverage. Level 1 and 2 are subsidized by 30%, level 3 is subsidized at approximately 15%. With a subsidy of 30% on the level 3 most farmers would carry level 3 rather than level 2. This would insure them at 75% of their APH. If the farmer is insured at level 3 (75%) it greatly reduces the need for a disaster program.

2. PROCESSING FEE OF \$50 PER PRODUCER PER CROP PER COUNTY, NOT TO EXCEED \$100 PER PRODUCER PER COUNTY This is one of the most unfair items proposed in the new crop insurance program. If you have 160 acres or 800 acres you pay the same \$100. Does this make sense? I don't think so. The potential exposure is not the same at all. Consider this: If the 160 acre farm has a total disaster and is paid the maximum on 80 acres of corn and 80 acres of beans he would receive \$23,280. If he had 800 acres (400 acres corn and 400 acres beans) he would receive \$116,400. This makes no sense at all.

3. REQUIREMENT THAT PRODUCERS MUST OBTAIN CATASTROPHIC COVERAGE TO BE ELIGIBLE FOR PRICE SUPPORT, PRODUCTION ADJUSTMENT AND CONSERVATION PROGRAMS This is important as it provides the vehicle that insures a very high level of participation in the crop insurance program. For example, Nobles County in Minnesota has a high level of participation and a large amount of premium has been collected over the years. When large losses occur such as in 1993 an adequate amount of money has been collected over the years to pay for the losses. By having a large percentage of participation this will help to make the program actuarially sound. If all farmers nationwide are required to purchase crop insurance coverage on at least level 2 (65%) there would be a great deal of money coming into the program. This would reduce the

amount of money needed from the government to subsidize the program. Participation could perhaps be monitored by having an area on tax returns to mark - YES, I purchase crop insurance; NO, I do not purchase crop insurance. I feel that we need less, not more government intervention in the crop insurance program but using the tax return could help to insure 100% participation.

4. DUAL DELIVERY SYSTEM: CATASTROPHIC COVERAGE MAY BE PURCHASED EITHER AT USDA SERVICE CENTERS OR THROUGH PRIVATE INSURANCE AGENCIES; ADDITIONAL COVERAGE MAY BE PURCHASED ONLY FROM PRIVATE AGENTS I really feel that this would be a very bad system. A dual delivery system just will not work. It would be inefficient, costly and confusing. The Farm Service Agency (ASCS) currently has it's hands full providing adequate service to the farmer. With the additional responsibility of crop insurance it would be necessary to hire more employees. Currently crop insurance is handled by independent agents and staff. As an example of the work force needed to service crop insurance I will outline my agency. I work fulltime servicing only crop insurance. I have one additional fulltime agent/service representative and 3 parttime employees. Crop insurance is the only thing we work with. A high level of knowledge and expertise is necessary because we are working with a farmer's source of livelihood. Further, there are many other agencies in Nobles County that sell and service crop insurance on a full or parttime basis. The total number of people needed to handle crop insurance is very high. How many additional employees are you willing to hire and pay to handle the proposed program? Who will bear this tremendous cost? Are you willing to put many independent agencies out of business and thousands of employees out of their jobs? This will reduce tax revenue.

5. USE OF ACTUAL PRODUCTION HISTORY (APH) FOR THE 4 PREVIOUS CROP YEARS, BUILDING UP TO 10 YEARS, AND THE USE OF TRANSITIONAL YIELDS (T-YIELDS) IF APH IS NOT AVAILABLE I believe in the Actual Production History (APH) and I feel that the 4 year average building up to 10 years would be fair. I would like to see the transitional yields (T-yields) removed and replaced with the full ASCS yield or some form of transferring yield history from one producer to another based on similar ASCS yields and soil conditions.

6. REQUIREMENT FOR PRODUCERS TO INSURE ALL LAND IN THE COUNTY FOR A PARTICULAR CROP All acres of a particular crop should be insured. This helps to make the program actuarially sound. For example: You farm 600 acres. 400 acres are well tilled, excellent farm ground but the other 200 acres are marginal to poor land. You don't expect a loss on the good acres but the poor acres are questionable so you insure only the marginal 200 acres. .

7. ADEQUACY OF THE BUY-UP COVERAGE FOR INSURABLE CROPS With the proposed program it is my understanding that the farmer will get 50% coverage at virtually no cost. There supposedly is going to be some subsidy for additional coverage (if purchased) but there is currently no information available telling us what this amount is going to be. If additional coverage is cost prohibitive - no farmers will purchase it. You must have a high level of participation, providing a

relatively high guarantee in order to provide security. This is the only way the program could work.

8. **PROVISIONS FOR NONINSURED CROPS** In our area the most important are the main cash crops - corn, soybeans, wheat. Many other crops should be considered - alfalfa, etc. All major crops should be included.

9. **AMOUNT OF THE PREMIUM SUBSIDIES AT DIFFERENT LEVELS OF COVERAGE** The subsidy is currently 30% at the 50% level 1 and 30% at the level 2 coverage. When you go to level 3 the percent of subsidy is approximately 15%. Once again, you must encourage a high level of participation at the highest possible level. To do this you allow the same subsidy as level 3.

10. **LIKELIHOOD THAT AD HOC DISASTER PROGRAMS WILL NO LONGER BE AVAILABLE** I think that the largest problem with participation in the existing program is the fact that the government has repeatedly stated that the only assistance available will be the Federal Crop Insurance Program. Farmers do not believe this. Whenever there has been a major crop failure the government has stepped in with disaster payments. Why purchase protection? If Congress would pass a law that the only assistance available will be the subsidy to the Crop Insurance Program and there will be no disaster payments you would have much higher participation.

11. **EXPENSE REIMBURSEMENT FORMULA FOR PRIVATE INSURANCE COMPANIES** Both state and federal government provides subsidies for many high risk programs - Federal Flood Insurance, Assigned Risk Workers' Compensation, Assigned Risk Automobile Insurance, etc. All private insurance companies must purchase Reinsurance on any lines of insurance that have high exposure. There is tremendous exposure in a crop insurance program so it is mandatory for the federal government to provide some type of reinsurance. I don't know what the level should be but if you would require 100% participation by farmers the cost would be much lower.

12. **PROVISION TO ALLOW PRIVATE INSURANCE COMPANIES TO LOWER THE RATES CHARGED TO PRODUCERS, SUBJECT TO FCIC APPROVAL** I don't believe that private companies should be allowed to lower their rates. If you require 100% participation the loss ratio will greatly improve and the subsidy can be lowered. If you allow private companies to set their own rates you will have some that will set rates too low in order to sell policies. Over a period of time they will suffer great financial difficulties - possibly going out of business and creating additional problems for insureds and the government. Insurance companies, just as any other business, must have adequate pricing to stay in business. Adequate, reasonable pricing and good service will guarantee that a company will be in business in the future.

13. **NON-STANDARD CLASSIFICATION SYSTEM** The non-standard classification is not fair to a farmer. He has no control over adverse weather conditions that may occur. However, there should be more scrutiny and retribution for poor farming practices.

14. GROUP RISK PLAN This coverage should not be available.
15. MARKET VALUE PROTECTION PLAN I have no information on this plan.

I ask that you consider these additional points:

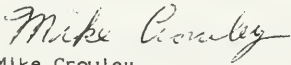
a) The current system is the best system to continue to provide crop insurance to our farmers. There is room for improvement so that it provides better protection. I feel that effort should be put into improving the current program - not designing a new program that appears to be totally unworkable.

b) The proposed new program will be extremely costly to the government and taxpayers.

c) The proposed program will give the farmer much less security.

Thank you for this opportunity to express my concerns and ideas regarding the crop insurance program. I would be happy to discuss any questions you have regarding my statements.

Sincerely,



Mike Crowley

## STATEMENT

# National Association OF Professional Insurance Agents

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**"THE FEDERAL CROP INSURANCE REFORM ACT OF 1994"**

**Presented by:**

**Donald R. Marin, CIC  
Marin-Biel Insurance, Inc.  
Selby, South Dakota**

**Field Hearing at the VFW Hall, Luverne, Minnesota**

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**April 5, 1994**

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Alexandria, VA 22314-9980  
703/836-9340 • Fax 703/836-1279**

*Representing more than 180,000 independent insurance agents, brokers and their employees*



I am Don Marin. I am an independent agent and owner of a small insurance agency in Selby, South Dakota. I have been in the crop insurance business for over 13 years. All my crop insurance business is with reinsured companies. I am here representing the National Association of Professional Insurance Agents (PIA National).

PIA National is a nonprofit trade association representing more than 180,000 independent insurance agents and brokers and their employees who sell and service all lines of insurance, specializing in coverage for homes, auto and business. PIA National has members in each state participating in the Federal Crop Insurance program by selling FCIC-reinsured multiple peril crop insurance. They also sell hail insurance and can provide farmers and ranchers with a broad range of insurance coverages tailored to meet their clients' needs.

PIA National commends the Subcommittee on Environment, Credit and Rural Development of the House Committee on Agriculture for holding this field hearing. We welcome this opportunity to present our positions and observations on various aspects of the Federal Crop Insurance Program.

On the adequacy of catastrophic coverage for insurance crops

The USDA's proposal would provide a basic level of coverage against catastrophic loss at no cost to farmers except for a processing fee of \$50 per policy or \$100 per farmer. The processing fee could be waived if the farmer has limited resources.

We believe that the catastrophic coverage is better than no coverage. However,

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we believe the coverage is inadequate to cover farmers' expenses in some cases. Crops are subject to many hazards over which farmers have no control. Even in the best producing years, thousands of crop acres are totally or partially destroyed by bad weather, insects and disease.

On the \$50 processing fee per producer per crop per county, not to exceed \$100

I personally feel the processing fee should be higher to compensate for the paperwork or at least elimination of the maximum of \$100 if they have more than two crops per county. I suggest a minimum of \$50 per crop or possibly \$100 for first crop and \$50 for each additional crop.

On the requirement that producers obtain catastrophic coverage to be eligible for price support, production adjustment and conservation programs

Considering the current program participation affected by producers reliance on ad hoc disaster assistance, we believe the catastrophic coverage has to be part of the reform package for the program to succeed.

On the dual delivery system

As you would expect, this issue is dear to our hearts as independent insurance agents. As I suggested to Secretary Espy when we met with him in Washington, it would be better for the farmer if they first went to an independent insurance agent so that the entire program including costs could be explained. Then, the farmer would be given a voucher or certificate by the agent, noting his purchase of the catastrophic coverage

and/or higher levels of coverage.

The largest strength of the current crop insurance program structure is that it relies on the private sector almost exclusively for the delivery of the crop insurance product. A network of over 68,000 individuals in the private sector currently earn part or all of their income through the sale and service of Federally-reinsured crop insurance. This labor force not only provides the farmer-customer with convenient, close-to-home access to crop insurance, it also provides a tremendous boost to rural development.

In terms of convenience to the farmer, as USDA proceeds to consolidate and relocate offices, the local crop insurance agent will probably be much closer and more convenient to the farmer than the new Farm Service Agency (FSA) office. In addition, agents make house calls; farmers need not stand in line at an FSA office.

PIA believes that FSA will never be able to provide the kind of personal service that is the hallmark of insurance agents. Professional, consumer-oriented agents will survive and succeed in their competition with banks, and this time, with the Feds, by doing what they have always done -- serving the needs of their clients.

On the use of actual production history (APH) for the 4 previous crop years, building to 10 years and the use of transitional yields (T-yields)

My comment here is that anyone who has not been in the Crop Insurance Program before and cannot prove his yields would only get 65% of their T-yield and that does not

make it a very good program for them in the first 3 years, until they can get a proven yield built up. This would not be an incentive to enter the program, when our objective is to get more participation.

On the requirement for producers to insure all land in the county for a particular crop

We believe this is a necessary requirement since our goal is increased program participation and better protection of farmers by encouraging them to buy crop insurance, which is true risk management.

On the adequacy of the buy-up coverage for insurable crops

Once we get more participation, with up to 85% of their proven yield available in the new Crop Insurance Reform Act of 1994, will give the farmers adequate coverage for his farming operations.

PIA also believes that this provision of the reform package should be taken by the insurance industry, reinsurance companies especially, as a challenge to develop supplemental coverages that agents could sell to their farmer-clients.

On the provisions for noninsured crops

We believe the Federal Crop Insurance Corporation should consider expanding the list of program crops beyond the major crops produced in the country including "specialty crops."

On the amount of premium subsidy at levels of coverage

For farmers to be adequately protected, crop insurance must be sold, even if a portion is given away for little or no charge. We would have preferred to see the catastrophic level lower, such as 25% or 35%, and more subsidy put into the higher levels of coverage to encourage more participation. Buying into the Federal Crop Insurance Program is a business decision. With adequate coverage and acceptable pricing, you're going to be able to sell the program because today's farmers recognize more than ever that they put more risk in one year than farmers ever had in the past so it is less likely that the farmers will say we'll wait until next year. Farmers have to make every year count. Unless you provide federal crop insurance, you're not going to allow every farmer to gain that protection.

On the likelihood that ad hoc disaster program will no longer be available

Congress should consider the recent numerous catastrophic events in the country as a "wake-up call" for ending ad hoc disaster payments. While political realities are that Members of Congress are often times elected by their constituents through their assistance in disaster programs, our dwindling Federal dollars and the difficulty of "finding" disaster funds, magnifies the importance of crop insurance.

For us agents who are on the front-line in the sale of crop insurance, the availability of ad hoc disaster payments is the Number One disincentive for farmers to buy crop insurance. This is also our experience in selling Federal flood insurance.



PIA National fully support efforts to reduce or better still, eliminate ad hoc disaster assistance. Ad hoc disaster bills can be bad both for farmers and taxpayers.

On the expense reimbursement formula for private insurance companies

This is a sensitive issue for agents because in most cases, agents commissions are dependent on private reinsured companies expense reimbursement. I would like to address this subject by mentioning some of the disincentives which discourage agents from selling crop insurance. Paperwork is horrendous. Regulations are constantly changing and insurance deadlines are often times hard to meet. These factors increase the agents' exposure to errors and omissions liability. And most of all, farmers are tough clients to sell. It's harder to sell them crop insurance because farmers are confident that in the event of a disaster, the federal government would provide relief regardless of whether a farmer had insurance or not.

Another major disincentive is the unpredictability of the Federal Crop Insurance Program in terms of program funding which ultimately affects insurance agents' commissions. PIA National believes that the "dwindling" expense reimbursements could affect the insurance industry's ability to assist in reforming this federal program. Personally, I don't think the reimbursement should be lower than the current 31%. The operating expense ratio for the property/casualty industry averages between 25% to 35%, so 31% is in the middle/upper range.

On the provision to allow private insurance companies to lower the rates charged to producers, subject to FCIC approval

While we advocate "cost through market forces" or a market base mechanism rather than government edict, we have some reservations on allowing insurance companies to lower the rates. The principle may look good, but in the long run, it could limit competition in the marketplace to the disadvantage of smaller companies. Selective marketing and "cherry-picking" could easily result in company insolvency and this will be very detrimental to the program.

On the non-standard classification system

PIA supports efforts to eliminate "abuses" to the Federal Crop Insurance Program. However, this needs to be looked at closely because there are cases where some states have had 8 out of 10 years drought, and we don't believe people should have their yields cut and their premiums raised, because of an Act of God. Many of the hazards faced by farmers — floods, droughts and other natural disasters — not only are largely beyond their control, but most are not subject to coverage by private sector insurance because of their catastrophic nature.

On the Group Risk Plan

The Group Risk Plan (GRP) is a new risk management tool developed by the FCIC.

It is another choice for farmers. If unhappy with the Multiple Peril Crop Insurance, GRP could work for them. GRP is not for everybody but for us agents, it is another insurance product we can sell; a "door opener" for the sale of other property/casualty products. More choices for the farmers, the better.

On the market value protection plan

We support this plan because it will benefit the farmers individually and the over-all program will be improved because adequate rates will be charged.

In conclusion, PIA National's:

- \* Major concern at this time is to get the Federal Crop Insurance Program adequately funded so that reform of this program can occur.
- \* Believes that this program is a program designed first and foremost to protect the American farmer. Farmers participating in the program enhance the stability of the economy in a given agricultural area.
- \* Believes that major improvements to this federal insurance program have been possible because of the government and private industry partnership. It is PIA National's belief that a key to the success of the Federal Crop Insurance Program is the maximum possible use by the FCIC of the private insurance sector.
- \* We continue to stand ready to work with Congress, the U.S. Department of Agriculture and other agencies to protect the American farmer by providing

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the necessary insurance coverage to protect the stability of our local and national economy.

Mr. Chairman, we need your help and support of the Federal Crop Insurance Program. While not perfect, crop insurance works.

LMA/3/30/94

HEARING OF THE HOUSE COMMITTEE ON AGRICULTURE  
Subcommittee on Environment, Credit and Rural Development  
April 5, 1994, Luverne MN

Steve Lindholm, President  
Farmers & Merchants State Bank of Clarkfield  
F&M Insurance Agency  
940 10th Avenue  
PO Box 248  
Clarkfield, MN 56223

I support the Administrations Crop Insurance Proposal - The Federal Crop Insurance Reform Act of 1994.

In my view, the effort to reform the crop insurance program by providing catastrophic coverage on an individual farm basis and eliminate or at least substantially reduce ad hoc disaster programs is a good move for America's farmers and a good move for the American public. It will provide farmers and lenders with protection they can rely on and it will be cost effective for tax payers.

It is imperative that the House/Senate Budget Conference Committee adopt the Administrations recommendation to transfer one billion dollars to "on-budget" for crop insurance reform when they meet the week of April 10. Inadequate funding of crop insurance reform would be a case of killing the goose that lays the golden egg.

There is a direct relationship between a sound crop insurance program and the availability of a plentiful, low cost supply of food for the American public. The ability to insure crops is fundamental to farmers ability to obtain substantial credit necessary to grow and harvest crops that are so vulnerable to natural disaster. With a sound crop insurance program, the U.S. farmer will continue to produce crops more efficiently and in more abundance than anywhere else in the world.

Please carefully consider all suggestions that could improve the proposal. The following comments will specifically address issues upon which I was asked to comment.

1. The adequacy of catastrophic coverage. It's my understanding that this coverage of 50 percent of the proven yield times 60 percent of the established price approximates the average net disaster payments. It has some validity from that standpoint. However from a risk management standpoint it will be inadequate for most farmers. Therefore, every effort should be made to provide both counseling and incentives for growers to buy-up this coverage to more meaningful amounts of protection.



2. The catastrophic coverage processing fee of \$50 per crop not to exceed \$100 per grower per county. This fee apparently is intended to represent a producer paid administration fee rather than a premium charge. This will be affordable for most producers. The adequacy of this fee to cover administrative costs will depend largely on the extent that USDA/FCIC permits the private sector to streamline and simplify the program, its administrative processes, and its presentation to growers. The simplicity of the private crop hail programs can be used as a model for the reformed crop insurance program.

3. The requirement that producers be required to obtain at least catastrophic coverage to be eligible to participate in price support and loan programs. Personally I feel that the small \$50-\$100 cost of the basis coverage is so reasonable that ad hoc disaster payments should not be necessary for those who would not take catastrophic coverage on a voluntary basis. If, however, the requirement is politically necessary to be sure there will be very few if any ad hoc disaster payments for crops in the future, I can accept it as a requirement.

4. The dual delivery system with catastrophic protection available from both private insurance agents or the USDA service centers and additional coverage being available only through private agents. I fully endorse maximum use of the private insurance agents and companies for several reasons.

First, private agents are experienced risk management counselors who will evaluate crop insurance protection and make recommendations that best address the needs of individual producers. Since I believe the basic coverage is inadequate for most producers, it is critical they be required, as a minimum, to go to a private agent for a full review of the coverage choices available to them before they buy the minimum coverage from the government office.

Secondly, the government service offices are already challenged to administer farmer programs without the additional burden of issuing crop insurance policies. Local USDA offices are being asked to get along with fewer personnel and yet the work load and documentation required to deliver government services is increasing. They would be asked to issue catastrophic crop insurance policies at the same time they are under the gun to complete spring sign up for farmer programs. If they are burdened with issuing crop insurance policies, they might have trouble getting the job done or errors may increase substantially.

Last, to duplicate the current private sector services in a government office is unnecessary and will cost taxpayers a high price.

I strongly recommend that the use of government offices to sell crop insurance be limited to only those geographical areas where private insurance agents are not available.

5. The use of actual production history (APH) to establish coverage. This approach provides more equitable coverage than using farm program yields when actual yield records are available. Every effort and incentive should be provided to make actual records available. Also, the rules should favor the use of previous yield records the producer has had a part in making on another farm or in another county.

When less than 4 years of records are available I recommend that transitional yield (T-yield) be eliminated and the full ASCS yield be used in calculating the bushel guarantee. The current APH rules reduce yields in our area to approximately 85% of ASCS yields before bushel guarantees are calculated. ASCS yields are already 10-20% below normal production, for our area. As a result, a farmer who must use T-yields will only receive approximately 40% coverage at Level II (which is designed to provide 65% protection) until records are available. The current T-yield formula does prevent some beginning farmers and farmers who are taking on new land from being able to obtain adequate protection.

Livestock producers especially cattle feeders, are at a disadvantage in producing records because they often don't have an effective way to measure yields on crops that are fed. They should also be able to use more realistic yields than T-yields to establish bushel guarantees when they are unable to provide adequate records.

6. Requiring that the producer insure all land of a crop in the county. This approach is part of the current program and is a sound basis for insurance.

7. Adequacy of buy-up coverage for insurable crops. This may be adequate for many growers. However, two deficient situations should be recognized. First, certain producers, especially beginning farmers who are highly leveraged may need more than 75 percent coverage. I recognize that the reform proposal allows up to 85 percent coverage and I hope that FCIC will give producers an opportunity to buy it at premiums that are affordable.

Second, we need to recognize that farmers have more coverage today under disaster payments and crop insurance than they would have under the reformed program. This should be addressed by giving producers the opportunity to buy a supplemental product that would increase the rate of payment perhaps after the producer suffers a loss of 50 percent or more. A provision of this nature was part of the 1988 disaster program and is included in most private crop hail policies. This could be a very cost-effective way to address this issue and could probably be done by the private sector with the backing of federal reinsurance at reasonable rates.

We need to do everything we can to increase insurance protection available.

8. Adequacy of protection for non-insured crops. Livestock producers in our area have difficulty obtaining coverage for some forage crops. Any additional crops that can be included in the program would be an improvement from the ad hoc system.

9. The amount of premium subsidy at the different levels. The more subsidy the lower the farmer's cost and the more they will buy. For example, more producers would buy 75 percent coverage if it had a higher subsidy and less cost. Every effort should be made to provide incentives for producers to increase coverage to more adequate levels of protection.

10. The likelihood that ad hoc disaster programs will no longer be available. If we can assume that USDA's estimates are accurate that 80 percent of the producers will be protected (about the same as under current disaster programs) and that higher legislative hurdles will make it more difficult to pass future ad hoc disaster programs, there should be fewer such programs in the future. This will be the result of both reduced need and increased difficulty to pass them.

11. The adequacy of the expense formula for private companies. I am not the expert here but I will share a few thoughts. Over the last few years the number of private companies in the business has declined by over 50 percent which could indicate that margins are pretty thin. I also know that each year FCIC adds more requirements for companies while reducing the expense rates. This cannot go on indefinitely. I recommend that FCIC with the private sector conduct a thorough review of program design and administration with a primary emphasis on simplification and reduction of administrative cost at all levels. The private crop hail program is a model to look at for simplification and efficiency.

If the program was simplified the expense formulas may be adequate.

12. Authority for rate competition between private companies with FCIC approval. Competition is the foundation of our free enterprise system. It should be permitted here too. FCIC must make sure that companies maintain adequate financial reserves to avoid insolvencies.

13. Non-standard classification system. This underwriting system is strong medicine when a grower, through no fault of their own, has a series of disasters. Compassion should be a part of the system. I do not think non-standard classification should apply to the catastrophic coverage. In other words, producers with a high frequency of losses might fall to the safety net of catastrophic coverage, but they should never fall through the safety net.

14. The group risk plan. This plan is OK as an option, but it should never be the only form of coverage available. It is not an effective risk management tool to use in the granting of loans

because a widespread catastrophe must occur before the producer qualifies for a loss payment. If no widespread disaster occurs, the individual farmer who experiences a crop failure would not be protected.

15. Market value protection. This is a good concept that ties the price election to the market place. This also provides more protection for growers who forward sell or hedge their crops during the growing season. I encourage FCIC to make much broader use of their authority to back private sector initiatives like this.

I would also like to see an increasing payment provision implemented by the private companies with FCIC's reinsurance to provide similar indemnity that is available under the current program where MPCIC and disaster programs combined provide protection up to the ASCS yield times the price.

Occasionally I read or hear comments from Washington and at home about the crop insurance program not working very well or that it costs too much. I do not share that view. I believe the current program works relatively well but can be improved in terms of increasing available coverage and reducing administrative costs.

It would be very wrong to think of crop insurance subsidies as a "give away" program. I believe the amount by which crop insurance program costs exceed premiums paid represents a very small investment of tax dollars for a very substantial return.

Please keep up the important work of improving crop insurance. Thank you Congressman Minge and the rest of the committee members for holding this hearing and inviting our comments.

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D.S. MPC SUMMARY REPORT  
(State/Crop Program from 1981-1990)

State	Crop Name	Prog. P.L.00	Premium (81 - 90)	Total Losses (81 - 90)	Loss Ratio (81-90)
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LA	PEANUTS	3	43078	47686	1.11
LA	RICE	10	937355	2135946	4.77
LA	SORGHUM	10	7090123	20609589	3.70
LA	SUGARCANE	3	805461	1316403	1.63
LA	WHEAT	8	3248876	11407102	3.51
..	Subtotal ..		103738394	270884304	

..	MA				
MA	APPLES	8	280688	304315	1.80
MA	CORN	6	32328	32328	1.72
MA	PEANUTS	1	38521	38521	9.79
MA	POTATOES	1	30135	30135	1.13
MA	TABACCO	3	89667	100784	1.12
..	Subtotal ..		1337163	1847092	

..	MD				
MD	APPLES	4	164307	371457	2.27
MD	BARLEY	3	7304	4347	0.56
MD	CANNING BEANS	0	620	0	0.00
MD	CORN	4	3394753	5037834	1.28
MD	FRESH MARKET TOMATOES	1	78859	144894	1.82
MD	GRAIN SORGHUM	2	3403	9310	5.17
MD	GREEN PEA	0	385	0	0.00
MD	OATS	0	0	430	0.00
MD	PEACHES	3	61311	108097	1.70
MD	POTATOES	0	48137	0	0.00
MD	SORGHUM	2	1357164	1836984	1.13
MD	SWEET CORN	0	31078	8886	0.63
MD	TABACCO	1	21394	7140	0.36
MD	POTATOES	1	48326	176541	3.61
MD	WHEAT	2	48326	46332	0.73
..	Subtotal ..		8877639	7512714	

..	ME				
ME	APPLES	3	16720	13397	0.82
ME	BARLEY	2	116094	120239	1.47
ME	CORN	4	146787	92494	0.63
ME	GREEN PEA	1	32763	14420	0.63
ME	OATS	2	3671806	646934	1.77
ME	POTATOES	6	3561	16117	4.38
ME	WHEAT	3			
..	Subtotal ..		4139805	692285	

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06/28/91

U.S. MPC SUMMARY REPORT  
(State/Crop Program from 1981-1990)

State	Crop Name	Prog. P.L.00	Premium (81 - 90)	Total Losses (81-90)	Loss Ratio (81-90)
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..	MI				
MI	APPLES	2	108469	183274	1.71
MI	CORN	1	3502	18417	1.77
MI	CANNING BEANS	1	1042261	118258	1.05
MI	CORN	7	695929	1601564	2.30
MI	DRY BEANS	8	3013	24878	8.20
MI	GRAIN SORGHUM	2	94391	95083	0.88
MI	GREEN PEA	0	41507	8888	0.91
MI	HYBRID CORN SEED	0	41507	8888	0.91
MI	OATS	7	215210	372268	1.73
MI	ONIONS	3	239319	709533	2.96
MI	PEACHES	1	37899	11879	0.31
MI	POPCORNS	2	32329	46390	1.43
MI	POTATOES	2	508326	2011096	6.02
MI	SORGHUM	2	11878	11878	1.73
MI	SUGAR BEETS	2	190137	629167	2.28
MI	SWEET CORN	0	0	0	0.00
MI	TABACCO	0	158	0	0.00
MI	POTATOES	4	28547	100387	2.40
MI	WHEAT	7	50964	180214	1.78
..	Subtotal ..		32165481	65268077	

..	MN				
MN	BARLEY	5	1070948	12812022	1.17
MN	CANNING BEANS	2	22370	51358	1.02
MN	CORN	3	15068915	78334380	0.53
MN	DRY BEANS	1	207437	810782	1.39
MN	FLAX	4	92841	102757	0.87
MN	FORAGE PRODUCTION	1	92841	431341	4.97
MN	FORAGE SEEDING	0	128448	123186	0.97
MN	GRAIN SORGHUM	1	1387	618	0.44
MN	GREEN PEA	4	354826	689147	1.38
MN	HYBRID CORN SEED	4	374312	532581	0.57
MN	OATS	4	574312	532581	0.57
MN	POPCORN	0	8117	0	0.00
MN	POTATOES	7	247567	820081	3.34
MN	PREVENTED PLANTING ENHOURS	2	10121	68286	4.57
MN	SORGHUM	1	10316	1030	0.01
MN	SUGAR BEETS	3	228579	1850052	8.12
MN	SUNFLOWERS	8	323167	848983	2.38
MN	SWEET CORN	2	334193	278623	0.83
MN	WHEAT	4	5706854	66283963	1.16
..	Subtotal ..		354588232	282333953	



Statement of Gene Smestad  
Director of Crop Insurance  
Farm Credit Services of Fargo, ACA

CROP INSURANCE HEARING

April 5, 1994  
Luverne, Minnesota

It is my pleasure to have the opportunity to participate as a witness today. My testimony will be qualified to the extent that I became a licensed insurance agent 27 years ago, have been participating in farming and purchasing crop insurance products for 21 years, and as an employee of Farm Credit Services of Fargo, ACA my responsibilities include directing the crop insurance program in a 9 county area in southeastern North Dakota.

When congress passed the 1980 Federal Crop Insurance legislation, they did it for all of the right reasons -

1. Provide risk protection to farmers at optional levels.
2. Include private industry in the delivery system so as to increase participation.

Additionally, the reformed FCIC program was intended to eliminate the need for disaster legislation AND eliminate subsidization to the program over time. This was indeed a visionary expectation which could only be achieved if the MPCIC product had "value" in the eyes of the producer/purchaser. To date, it has not had enough "value" to increase participation to expected levels.

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Why hasn't this happened? Let me offer a couple of thoughts -

**Thought #1 -** FCIC remained in charge. They established program direction, administration and reviews. The important question here is "what incentive did they have to aggressively step up to the plate and make the changes necessary to meet the expectations of the 1980 legislation?

**Thought #2 -** Insurance companies contracted with FCIC and ran a cost plus, risk free business until 1989 when the element of real risk sharing was included in their contracts. Prior to 1989, there was little incentive to lead the charge in product enhancement.

FCIC has recently been reducing the Expense Reimbursement contracts with it's reinsureds, causing companies to pull back from developing added products as they search for means to remain profitable and gain reinsurance for the added products.

The Interim Report of the Commission for the Improvement of the Federal Crop Insurance Program, dated April 3, 1989, contains a summary of recommendations that would have greatly enhanced the present product. Those recommendations were the result of hearings throughout the United States. It is my belief that the hearings identified the issues, but because of the administrative structure of FCIC and the initial contracts with the private companies, changes were too slow in coming. As a result, we have had considerably more disaster legislation and red ink - - all at a time when Washington is trying to balance their checkbook.

So here we are today, some 13 years since the 1980 legislation. With knife in hand, we are about to perform some major "reform surgery". The basic proposal begins with a "something for nothing" coverage with the option to purchase additional coverage. The expectations of this reform are identical to that of the 1980 legislation -- which we recall were, 1) greater participation, 2) eliminate disaster legislation, and 3) actuarially sound.

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Although this proposal would not have been my first choice, it may well be the only way toward product enhancement. Private companies, driven by business fundamentals of profits and market share, will now develop products that the customer perceives to have "value".

So what are some of the issues open for debate:

**Issue #1 - Dual delivery system:**

History clearly demonstrates the inability to lace marketing and servicing incentives into a governmental delivery system. Only private agents will have the incentive to provide the product counseling necessary to assure good risk management participation. Additionally, when the agents personal success is based upon farmer participation, there will exist an automatic incentive to improve product value so that the sales materialize. Greater participation is an expectation of this reform -- increasing product value is the only path towards increased participation.

Efforts should be made to increase industry's role and responsibility in the delivery and marketing system rather than pay the government to come back in as a player.

**Issue #2 - Group Risk Plan:**

This is clearly another attempt to provide something less in value to save budget. All of us buy insurance and we buy individual coverage to match our risk management needs. The present APH approach provides for individual coverage which can be measured in specific dollars of protection. GRP cannot be measured until the year is over. It could be a bonus or a ticket out of farming. It is a dangerous option to promote if we are truly concerned about providing risk management insurance to farmers.

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The implications of not having individual coverage will shrink some operators credit limits with their respective lender. Buying a product which provides no measurable protection value is like shooting craps -- it simply does not reconcile with sound business judgement.

Under a dual delivery system, I wonder what incentive an ASCS office employee would have to truly evaluate this option with a farmer.

**Issue #3 -** APH calculation.

This is a good approach to individual protection and the 1994 enhancement was good to see. However, further enhancements would increase product value. Enhancement #1 would be to limit catastrophic loss years to the T-yield. Enhancement #2 would be to keep that catastrophic loss from the rate base data. The purpose of these two enhancements would be to prevent product value deterioration and prevent increased product price relative to value.

Without these enhancements, it is doubtful that product value will increase to the desired levels. A farmer can buy \$100 of hail coverage per acre, incur a total loss and the next year he can again buy \$100/acre of protection. However, with MPCI, the total loss will diminish the amount of coverage he can purchase the following year. This identifies a product deficiency as his expenses and risk protection needs will not diminish.

**Issue #4 -** Cheaper theory:

Proponents of this reform are saying that the additional insurance the farmer buys above the "something for nothing" line could be less expensive as a result of more participation. This is doubtful. We must increase product value to get participation and product value will have added price if it is to be actuarially sound.

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Let's get away from believing we can sell a poor product just because it is cheap. History proves this is not possible. Instead, let's improve the product and price it according to value. Farmers are very large buyers of value products -- they will make good business decisions if the product options are available.

**Issue #5 -** Adverse selection is thought to be a function of "Knowing disaster legislation will be available".

As a farm owner who buys MPCl, and as a lender who sets up farm operating lines of credit, I see adverse selection as a direct function of perceived product value. That is why participation varies by crop and geographic area.

If product value is increased, the size of the risk pool will increase, and adverse selection will decrease.

**Issue #6 -** Role of FCIC

Simply stated, they must not be a roadblock to private industry's attempt to develop and market products of increased value. Allowing them to establish a presence at the county level, as proposed, would be a mistake. That would be building another cost structure that would defer dollars away from enhancing product value.

FCIC must move faster in both approving and reinsuring added products so as to be a more accommodating player in program enhancements. Private industry needs this type of cooperation if reform expectations are to be accomplished.



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### Conclusion

We are again standing at the gate of opportunity in regards to improving risk management tools for agriculture.

If this reform gets caught up strictly in the emotion of cutting costs, it will fail everyone. The focus must be to bring business principals to an enhanced risk management product which can measurably protect production agriculture.

If we promote single delivery by private industry -- if we promote the development of products with true and measurable value -- if we enhance the APH formula to limit product value deterioration -- and if we promote an American free enterprise spirit to the above process -- we will have a chance at achieving reform expectations.

Good luck in your continued efforts -- it's been my pleasure.

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Ph: 507-526-7394

Mr Chairman:

There are three areas that I feel must be addressed in any revision of the Federal Crop Insurance act. Before I address these revisions I would like to state my support for the Federal Crop Insurance program. In the last fifteen years this program has evolved into a good program that basically delivers what the current legislation intended it to do. I believe that most everyone agrees that new legislation must be enacted to make Federal Crop Insurance universally acceptable.

My first recommendation is the new legislation must clearly define Federal Crop Insurance's role. Current legislation does not allow for the flexibility that is currently demanded of Multiperil Crop insurance. Along with a clearly defined role, the legislation must redefine the position of the manager of the Federal Crop Insurance Corporation. The managers position should be changed from a political appointment to a permanent position. The revolving door of managers of the last fifteen years has significantly harmed the program. We cannot have a consistent program without clear leadership. Relationships between private companies and the Federal Crop Insurance Corporation have been strained because of this turn over. With a permanent manager long term relationships can be established and a spirit of cooperation will have a better chance of prevailing. The manager

must have the ability to implement programs and procedures within a much shorter time frame.

The current system of publishing a procedure before it is implemented does not allow for the program to react to changes in farm economics. A clear example of this was Federal Crop Insurance Corporation's failure to revise its coarse grain quality adjustment procedure. This failure of action resulted in the policy holder making a decision based on information that he was given in good faith and later being penalized by Federal Crop Insurance Corporation's clarification of an old procedure. This clarification penalized the farmer for a grain buying practice that was beyond his control. A strong managers position would not have allowed this situation to happen.

My second recommendation is to allow coverage to be raised to cover cost of production. I do not believe that the current maximum level of 75% of a farmers yield should be raised. I do believe that the dollar amount of coverage per bushel is not adequate. I do not subscribe to the theory that raising the price election above market price causes a moral hazard. The past practice of allowing a farmer to collect both Federal Crop Insurance and disaster payments has in effect allowed the same thing. There are many procedures that can be easily adopted to prevent the small percentage of farmers from abusing the program.

Until we allow coverage that will act as collateral and subordinate a loan we will always receive pressure to enact disaster legislation. The availability of this coverage is primary over price of the coverage or the amount of subsidy. The ability to raise coverage to secure debt will singularly make this program universally acceptable and take pressures off many other government agencies. The American farmer is not asking for cheap coverage. They are first asking for the ability to cover their cost of production and then for a reasonable premium. The main problem of the current program is the amount of coverage not the cost.

The third recommendation is to redirect Federal Crop's actuarial approach to the program. The actuarial division must be directed to stop the practice of subsidizing high loss ratio areas with premium dollars from another part of the country. For congress or private industry to evaluate any Federal Crop Insurance program it must have accurate information. Once we know the true probability of loss for a given crop in a given area, then it is up to congress to decide the level of subsidy and the farmer to decide if he wants to pay the premium. This would stop nontraditional crops grown on marginal land. I have been told that true rating in the norther corn belt would lower corn premiums by 25%.

The new program division of Federal Crop actuarial should be expanded. History has taught us that the private reinsurance industry is not a consistent viable resource. I believe many programs can be developed with government cooperation. It is not necessary that the government subsidize these programs but simply acts as a reinsurance source.

The demand for a quality disaster program administered through the Federal Crop Insurance Corporation has wide spread support in this area. I urge congress to either choose disaster payments or Federal Crop Insurance to deliver aid to farmers. The debate between the two forms of aid has gone much to long. The American farmer needs stability and congress needs cost control. I belive Federal Crop Insurance will favorably address both concerns.



## Farmers' Legal Action Group, Inc.

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Stephen Carpenter  
STAFF ATTORNEY

April 5, 1994

The Honorable Tim Johnson, Chairman  
Subcommittee on Environment, Credit,  
and Rural Development  
2438 Rayburn House Office Building  
Washington, DC 20515

Dear Representative Johnson:

My name is Bruce Kleven and I am a staff attorney at Farmers' Legal Action Group, Inc. (FLAG) located in St. Paul, Minnesota. FLAG is a nonprofit law firm that provides legal services to small and mid-size family farmers. FLAG is submitting testimony today on behalf of its client National Family Farm Coalition (NFFC). NFFC represents 39 rural and farm advocacy organizations in 30 states.

For the past eight years, FLAG attorneys have worked extensively with USDA agencies, including the Farmers Home Administration (FmHA), the Agricultural Stabilization and Conservation Service (ASCS), and the Soil Conservation Service (SCS). FLAG has successfully represented thousands of farmers in class action lawsuits to challenge illegal agency actions and to enforce administrative requirements. FLAG also provides legal education and training services to attorneys, farm advocates, and farm organizations regarding USDA programs and related legal issues. Over the years, FLAG attorneys have acquired specialized knowledge in the field of agricultural law.

In response to the extensive flooding in the Midwest last summer, FLAG attorneys began analyzing existing disaster programs to cut through the red tape surrounding federal disaster relief assistance. FLAG published a book entitled Farmers' Guide to Disaster Assistance that explains complicated disaster programs in plain language format. FLAG also operates a hotline that farmers from around the country can call for legal assistance.

Much of my work in the past year has focused on writing portions of the book and answering calls from disaster-stricken farm families. My comments this morning are directed at some of the issues that were raised in the heat of the disaster last summer and how they fit into the proposed crop insurance reform legislation.

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#### General Comments

NFFC generally supports the concept of federal crop insurance reform and welcomes a workable disaster assistance program. For years, the federal crop insurance program has been plagued by low participation rates and less than adequate coverage levels. Although some farmers have purchased crop insurance as a normal part of the cost of operating a farm, others have been forced to give up crop insurance coverage because they could not afford the high cost of insurance premiums. In either case, farmers with disaster losses have relied on ASCS disaster payments because crop insurance only covers a portion of actual losses. This dual disaster assistance approach has caused considerable confusion and has undermined the effectiveness of the crop insurance program.

There are some innovative provisions in the proposed crop insurance legislative reforms that address existing problems. For example, FCIC has traditionally required a ten-year production history to purchase effective insurance. A beginning farmer who does not have ten years of history was penalized because he could not be covered at an effective level until the ten-year history was established. Section 508(f)(2)(A) of the proposed legislation attempts to solve this problem by requiring a minimum four-year history. Such a provision is a step in the right direction to reforming the crop insurance system.

#### Specific Sections of the Bill

There are several provisions that NFFC feels must be addressed or clarified.

##### 1. The Catastrophic Coverage Level

Under the proposed legislation, the authority to pass ad hoc disaster relief legislation has been replaced with a catastrophic coverage level. Organizations that represent the interest of family farmers, including NFFC, have debated the proposed catastrophic coverage level. While the \$50 per crop, per county is arguably very affordable insurance, the proposed rate raises some questions:

- a) Does a farmer with 800 acres of corn pay the same \$50 as a farmer with 80 acres of corn? If the answer is yes, the smaller the farmer, the more that farmer will pay for the same coverage.
- b) What happens when a farmer has more than two crops? The language provides that catastrophic insurance can be

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purchased at \$50 per crop, per county, not to exceed \$100. This allows only two crops to be covered, yet it is unclear what happens when a farmer raises three or more different crops. If the catastrophic coverage level is capped at \$100, there is no statutory mechanism that allows a producer to insure crops three, four, and five at a rate of \$50 per crop.

- c) Does the language "\$50 per crop" mean per crop raised (meaning all fields planted to that crop) or per field? If the language is strictly construed, a producer with 20 corn fields would only have to pay \$50 to insure all 20 fields, while the producer with 1 corn field pays the same \$50. The statute should define what "\$50 per crop" means.

The above questions illustrate some of the confusion that could occur if the proposed legislation is adopted as drafted. FLAG encourages the Committee to address these ambiguities to avoid improper interpretation problems during the rule-making process.

## 2. The Group Risk Plan

A new coverage option in the legislation is the Group Risk Plan (GRP), which operates on a county average system. Our understanding of this option is that farmers can purchase GRP coverage, and if the actual production for that crop is below the county average, participating farmers will get a payment representing that loss even if the farmer did not personally suffer a loss. This will allow farmers who do not suffer a loss to get a payment. The GRP is potentially inconsistent with the purpose of the FCIC and the goal to improve the loss ratio.

On the other hand, if the overall county average is met during the crop year, but an individual producer suffered a disaster related production loss, a payment will not be made to that producer because the county average was met that year. In this situation, the producer purchased crop insurance, but could not get an indemnity even though he suffered a substantial loss. The GRP potentially covers unaffected farmers and does not always cover affected farmers.

In addition, NFFC feels that a producer's actual production history (APH) should be used in place of county averages if the producer so chooses. The producer, not the insurer, should be able to choose whether to use APH or county averages.

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### 3. The Delivery System

In past years, the FCIC has offered insurance through two vehicles: directly through the FCIC or indirectly through private insurance companies, which are reinsured by the FCIC. The vast majority of the crop insurance policies (85 percent) are purchased from private insurance companies. Regardless of whether the policy was direct or reinsured, the producer would get the same policy because the reinsurance agreement was standard. In other words, private insurance companies had to offer the same federal policy for a crop to all producers because the agreements were standard. This system provided consistency throughout the industry.

The new system appears to have the federal government offer direct policies for the first 50 percent level of coverage (the catastrophic coverage level) through ASCS offices. The private companies would offer additional coverage levels above the 50 percent level. However, the legislation does not provide a standard reinsurance agreement; in fact, private insurance companies are encouraged to be more efficient and competitive. In the absence of a standard reinsurance agreement, private companies may draft insurance agreements that are either arbitrary or unfair to the producers. In addition, producers will lose administrative appeals rights because private insurance companies will not be subject to federal administrative appeals procedures. Without an effective appeals system, private carriers cannot be held accountable for erroneous or unfair decisions.

### 4. The Loss Ratio

The Budget Reconciliation Act of 1993 requires the FCIC to get its loss ratio back to 1.1 by October 1995. This means that the Corporation cannot pay out more than \$1.10 in claims for every \$1 in premiums. Although the proposed legislation states this as a broad goal, it does not explain exactly how the FCIC will comply with the Budget Reconciliation Act.

A concern farmers have is that they will have to pay more and receive less service because of the mandated loss ratio. There are only two ways to maintain a loss ratio of 1.1: pay less in indemnities or increase premiums. Either way, the producer will get less service for the money.

### Disaster Concerns

The flooding in the Midwest last summer forced some issues to the table that had not been addressed in past years. This section of

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my comments illustrates problems that could recur in future years and therefore need to be addressed.

#### 1. Specific Cancellation Provisions

Producers who buy corn and soybean crop insurance in this part of the country must purchase the policy by April 15 of the crop year. However, the insurance premium is not due until October when the crop has been harvested. This method of payment eases the financial burden on the producer by reducing the amount of money needed to finance the operation in the spring. Even though the actual premium is not paid until the end of the year, a binding contract has been created: The insurance company agrees to provide coverage and the producer promises to pay the premium. However, several farmers contacted our office in 1993 with complaints about improper cancellation of insurance contracts.

In one case, a producer purchased crop insurance by April 15, and the company agreed to provide coverage at a certain level. The producer reported the planting dates, but did not provide the exact number of acres. After the farm was flooded, the insurance company notified this producer that they were cancelling his policy, even though the contract had been formed.

In another case, a producer received disaster assistance in 1992, and as a condition agreed to purchase crop insurance for the 1993 crop year. He did so by the April 15 deadline, and reported the number of acres to ASCS but did not report his acreage to his private insurance carrier. He believed that this was adequate, since both ASCS and FCIC are government agencies. Again, after the farm had flooded, the insurance company notified him that it was cancelling his policy because he failed to report his acreage. When ASCS learned that the producer was out of compliance because he did not have crop insurance in effect for 1993, it notified him that he was ineligible for 1993 disaster payments and that he must pay back 1992 disaster benefits. This producer ended up without insurance coverage for 1993 and in addition, had to pay back 1992 benefits.

The regulations governing the crop insurance program (located in volume seven of the Code of Federal Regulations at Part 400) provide specific reasons for cancellation of an insurance policy. Valid reasons for policy cancellation include failure to pay the premium, fraud, misrepresentation, death, and judicially declared incompetency. However, failure to provide planted acreage and planting dates are not valid reasons for cancelling the policies. Despite this language, insurance companies denied coverage for those reasons in the examples.



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Unfortunately, in a year when the producers needed the insurance most, the insurance companies were all too eager to avoid claims whenever they could. Clear and fair cancellation provisions should be included in this legislation so that insurance providers will be prevented from acting arbitrarily with respect to the cancellation of policies.

## 2. Penalties for Dual Coverage

Another unfair and costly situation that occurred this summer concerned the issue of dual coverage. A Minnesota farmer had inadvertently purchased two crop insurance policies on the same acreage for several years. One policy was purchased directly from the FCIC and one was purchased from a private carrier. The regulations specifically state that only one policy can be in effect at one time. However the farmer honestly believed that the two policies were different.

The dual coverage existed for several years but was discovered this past summer during the severe flooding. As a penalty, the FCIC required this person to pay back all of the indemnities paid out on one of the policies. Fortunately, the FCIC required him to pay back the lower of the two indemnities. However, the payback requirement still increased the financial burden in a year when he could least afford the penalty.

It is interesting to note that the severe payback penalty is not a statutory provision. The payback requirement was adopted through the agency's rule-making process in 1987, even though there was no statutory authority for this penalty and the explanation of this rule did not disclose the origin of the penalty. It seems that this harsh penalty appeared from nowhere and was used to increase the financial burden on one disaster-stricken producer. This legislation should include specific language that does not allow the FCIC to have the dual coverage payback penalty.

## 3. Livestock Feed Assistance

Past disaster bills have focused significantly on providing compensation to producers of cash grain crops who suffer disaster losses. One group of agricultural producers who are consistently left out of federal relief dollars are livestock producers. The current emergency livestock feed assistance program allows livestock producers feed assistance only after the entire county where the producer resides has lost 40 percent of its available feed supply. This threshold is very hard to meet, and therefore the program is not available very often, and when it is, the requirements are complicated and the relief is not effective.

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The proposed crop insurance legislation continues to exclude livestock producers by addressing only cash-crop insurance. Although livestock producers can purchase insurance for feed grains, insurance is generally unavailable for forage and hay losses. While cash crop producers will be able to protect themselves from future disaster losses under this legislation, livestock producers cannot purchase similar protection for their commodities.

This is important because the current emergency livestock feed assistance program is funded through annual disaster appropriations. If this legislation is adopted, the authority to pass future disaster bills is repealed. Unless language is included that will protect the interests of livestock producers, the emergency livestock feed program could not be funded because the authority to do so would be repealed.


4. The Emergency Conservation Program

Another disaster program that is available only during natural disasters is the Emergency Conservation Program (ECP). The ECP provides cost share assistance to producers to help restore conservation structures that were damaged as a result of a natural disaster. The ECP is only available through a Congressional appropriation. If the federal crop insurance reform legislation repeals the authority to pass future disaster bills, this useful program might not be funded to assist producers who lost valuable conservation structures.

We thank this Committee for holding these field hearings and maintaining its commitment to improving the federal crop insurance program.

Respectfully submitted,

FARMERS' LEGAL ACTION GROUP, INC.



Bruce M. Kleven  
Attorney at Law

BMK/tr



Mayor William V. Weber

APR 04 1994

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April 1, 1994

The Honorable Congressman Tim Johnson  
515 South Dakota Ave.  
Sioux Falls, South Dakota 57102

Dear Honorable Tim Johnson:

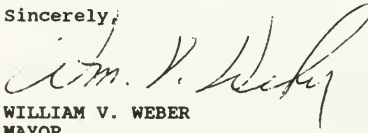
I appreciate your efforts to understand the situation of our area farmers following last year's flooding and the efforts of your subcommittee in its work on federal crop insurance reform.

I would like to formally welcome you and members of your delegation to Luverne, and thank you for selecting Luverne as a location of the Subcommittee on Environment, Credit and Rural Development field hearing on federal crop insurance reform to be held on April 5th.

I am sure the subcommittee will have a good opportunity to hear from area farmers as they offer input on how the program can be restructured to better accommodate their needs.

Once again, thank you for your concern and support.

Sincerely,



WILLIAM V. WEBER  
MAYOR

WVW:rf

Comments and Suggestions on  
Crop Insurance Reform  
from Greg Wheelock,  
Crop Insurance Services  
P.O. Box 3123  
Mankato, MN 56002-3123  
507-388-5367 • Fax 507-388-3431

1. While prevented planting coverage has been added, a 3 day reporting requirement is too stringent. The last thing on farmers' minds will be reporting in every 3 days.
2. Complexity and time requirements of MPCCI are too excessive for many agents. If these agents are expected to exert their energies and abilities in promoting MPCCI to meet the target of insuring 80% of potential acres, their commissions cannot be cut year after year.

- a) For example, for 1994 most agents will receive 1.5% of base premium less because most companies pass the entire expense reimbursement reduction by FCIC to their agents. Thus, if the average agent received 15% of base premium in 1993, then a 1.5% of base premium reduction in said commissions equates to a 10% reduction in income.

It won't take long for agents to realize they can make more money selling lines other than MPCCI if their commissions are reduced further, and thus your 80% participation target won't be realized.

- b) \$50 - \$100 per farmer for the 50/60 catastrophic policy is an unreasonable amount of compensation for agents and companies to process the same amount of paperwork and pay for added expenses (additional computer programming requirements; additional training of company underwriters, field staff and agents; and extra auditing requirements).

Also as \$50-\$100 provides no incentive for an independent agent to complete said paperwork, then the "job" reverts to ASCS to process the policy. I doubt if an ASCS employee has any incentive to provide more than basic or minimum service to an insured. Thus, as no one has incentive to work with an insured to obtain optional units with coverage based on actual production history, the insured will become dissatisfied, the negative attitudes toward "Federal Crop" will continue, and your 80% participation goal won't be reached.

- c) Remove the proposal 508 (b) (4) to waive the \$50 - \$100 "premium" for limited resource farmers. As harsh as this may sound, if a farmer can't afford \$100 for this coverage, chances are he/she shouldn't be farming anyway.
3. Added land rules need to be relaxed/revised to account for land added in the last three years. It is disheartening that land added in 1991, 1992 or 1993 may have

T yields of 65% to 90%, yet if the same land is added in 1994, it most likely would receive a 100% T yield. Consideration should be given to "grandfather" in land recently acquired by (existing) insureds.

4. Suggest the 50/60 catastrophic coverage be based on a program similar to GRP as this is meant to replace the disaster programs which are administered on a county-wide basis. While the coverage is essentially free, it should be shown that said coverage is meant only to replace disaster assistance and that "buying up" to additional coverage is a cost effective risk management tool. This may create an incentive for both the insured and agent to work together in a long-lasting relationship.
5. Many of the new applicants for 1994 (because of disaster requirements) state they have not carried MPCCI coverage or have dropped MPCCI coverage because 65% doesn't cover enough, 75% is too expensive, and corn coverage is too expensive, especially in relation to soybeans. While I may not have the answers to these problems, the farmers' voices in these matters must at least be heard before they can be addressed. In short, higher coverage options need to be more affordable.
6. To insure that claims are paid as timely as possible, suggest guidelines be set for companies as to:
  - a) The ratio of adjusters to policies
  - b) Whether claims must be "verified" after adjustment and if so recommend the ratio of verifiers/auditors to policies.
  - c) Exact loss adjustment procedures defined before losses set in (too much interpretation in 1993 concerning wet corn and drying changes).
  - d) Recourse for the insured when claim is not paid within 30 days as stated in policy provisions.
7. While most agents educate others as much as possible about MPCCI, their resources are limited. Much of the negative attitude towards MPCCI is due to ignorance. Many of the people that farmers turn to for advice, such as bankers, accountants, commodity brokers, ASCS and Extension employees, financial advisors, and the like, do not fully understand MPCCI and what it can or cannot do as a risk management tool. A large scale training program must be offered to these professionals so they can at least extend "educated advice" about MPCCI.
8. Remove proposal 508 (d) (3) to allow companies to pass on any savings in expense reimbursement to the producer by reducing premiums. The proposal has several inherent problems.
  - a) Economies of scale normally dictate that the largest companies have the lowest costs and could pass more savings on to the insured than smaller companies thus creating unfair competition. The big get bigger and the small get smaller.



- b) Smaller companies, in order to compete with larger more efficient companies may begin "cutting corners" on adjustment, audits and underwriting in an effort to cut expenses. Premium is reduced, but so is service and quality.
  - c) In the Midwest, most coverage is at 65% and is reasonably priced. Does this level really need to be subsidized by more efficient companies? I don't think so. Let the rates come down by themselves through greater participation (80% target) and broader diversification of risk.
  - d) In the long run, by showing that a company is well run and efficient, its expense reimbursement from FCIC will likely drop. If OMB sees a company can afford to pass on savings to the farmer, they will think the expense reimbursement is too high and thus lower it. Net result: income drops and premiums rise. There is no longer any savings to pass on to farmers unless the company again lowers commission to agent.
9. Agents and companies need recourse through other government agencies such as ASCS and FmHA for collection of unpaid MPCCI premium. It makes no sense that farmers can continue to collect other USDA benefits when their subsidized MPCCI premium remains unpaid. There is a need to offset unpaid MPCCI premiums from other government assistance programs such as deficiency payments at ASCS.
  10. Rather than creating an additional MPCCI program with the 50/60 catastrophic coverage, improve what we've got now and just stop creating ad hoc disaster programs! When farmers and their bankers realize the government is not going to keep "bailing them out" they'll resort to the self-help risk management program we now have with MPCCI.
  11. If disaster programs continue, make MPCCI a requirement regardless of the amount collected from disaster payments and require that MPCCI be carried for more than just one year.



# REVIEW OF THE ADMINISTRATION'S FEDERAL CROP INSURANCE REFORM PROPOSAL

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THURSDAY APRIL 21, 1994

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT,  
AND RURAL DEVELOPMENT,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 1300, Longworth House Office Building, Hon. Tim Johnson (chairman of the subcommittee) presiding.

Present: Representatives Long, Minge, Pomeroy, Thurman, Sarpalius, Hilliard, Baesler, Combest, Allard, Ewing, and Dickey.

Staff present: Joseph Muldoon, associate counsel; Gary R. Mitchell, minority staff director; Jan Rovecamp, clerk; Anne Simmons, Dwight Fettig, Merv Yetley, and David Ebersole.

## OPENING STATEMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. JOHNSON. We will bring the Environment, Credit, and Rural Development Subcommittee to order. I apologize for running a few minutes late. I was testifying in the Rayburn Building, and that caused some complications.

The purpose of today's hearing is to review the administration's crop insurance reform proposal. We have heard from Gene Moos and Ken Ackerman in our initial hearing, and we also heard from producers, crop insurance agents, and lenders during a field hearing held in the gentleman from Minnesota, Mr. Minge's district.

As you are all aware, our Government is involved in a dual system—one of crop insurance, the other of ad hoc crop disaster payments. Frankly, neither of them work as well as they ought to.

One goal of the 1980 overhaul of the crop insurance program was to eliminate the need for ad hoc disaster programs. Clearly, this has not occurred. Congress has authorized ad hoc disaster programs every year since 1986.

The Federal Government has spent an average of \$1.7 billion annually for crop insurance and ad hoc disaster payments during the past 10 years. Producers are disenchanted with the crop insurance program, as evidenced by the fact that participation is limited. Only 30 percent of the eligible acreage is enrolled. And when they do experience crop losses, coverage is often perceived to be inadequate.

(219)

Ad hoc disaster programs are unpredictable in that they require emergency appropriations which, in turn, generally require large regional disasters that are subject to the political whims of the moment. Producers cannot budget for it, and it makes financial planning for them and for lending institutions virtually impossible.

We have the two programs purportedly working side by side to help producers, but in many respects they are working at cross purposes. The very existence of ad hoc disaster programs undermines producer willingness to invest in crop insurance and, in fact, many producers all too often do not take out crop insurance because they believe that the Federal Government will bail them out by offering free ad hoc disaster payments.

I commend this administration for taking a comprehensive approach to reform, offering one program that combines catastrophic and higher-level insurance coverage for all currently insurable crops, with standing disaster for noninsurable crops, and solves the many problems that have been enumerated here.

This subcommittee must now examine the details of the administration's bill. Above all, any crop insurance proposal must be fiscally and actuarially sound and within our budget requirements. Producers must be convinced of two things: One, that their out-of-pocket costs for insurance must be commensurate with potential indemnities they may earn; second, ad hoc disaster programs are, indeed, a thing of the past.

It is essential that Congress goes beyond merely restating its opposition to ad hoc disaster programs if this reform is going to work. Part and parcel of any effective reform will have to include changes in budget rules that will make ad hoc disaster payments exceedingly difficult to come by.

There are many other concerns that have been expressed to me about the administration's proposal, and they can be discussed later in this hearing.

We are all anxiously awaiting action by the conferees on the fiscal year 1995 budget resolution to determine how much money we will have to work with in implementing the reform proposal.

Mr. Combest and I have been in touch with the conferees, as have OMB Director Panetta, Chairman de la Garza, Mr. Roberts, and a number of other Members who want to see this improvement happen. Pending the outcome of the conference and floor action, I plan on being as aggressive as possible in moving H.R. 4217 through this subcommittee. I will continue to work with Chairman de la Garza and other members of the committee as this legislation moves to full committee. I'd like to welcome today's witnesses. I look forward to their testimony.

A lot, again, does depend on the outcome of the budget negotiations. If the budget numbers come out too short, this reform simply will not be a viable option. But I think at this point we need to continue to proceed on the assumption that we will have the fiscal resources necessary to make this a real alternative and a real reform.

Now, I recognize my colleague, Mr. Combest, for any opening statement he might choose to make.

**OPENING STATEMENT OF HON. LARRY COMBEST, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. COMBEST. Mr. Chairman, thank you.

I would like to join you as per your statement on an aggressive consideration of this legislation as it moves forward—something that is well overdue.

Mr. Chairman, it looks as if you have put together a great group of witnesses with great expertise in Federal multiperil crop insurance and how it affects agricultural producers around the country. I am especially interested in getting the perspective from agricultural lenders as well as local professional insurance agents.

About 3 weeks ago, during the Easter recess, Mr. Chairman, I held a town meeting in Lubbock, Texas, that was attended by about 200 farmers and insurance industry representatives. They came together to hear Ken Ackerman, the Manager of the Federal Crop Insurance Corporation, explain Secretary Espy's proposal.

Knowing that crop insurance is a useful tool for farmers in west Texas, I was encouraged by the number of farmers who attended. I believe most of them went away from that meeting with a generally positive outlook about the possibilities and benefits of this program.

Although there will be adjustments made before we send the bill to the President—one of which obviously is to get enough money to properly fund it—I believe the program changes offered so far are greatly workable. Even faced with the necessity of adding \$1 billion on budget to fund this proposal, it is sound fiscal policy.

The fact is: Wherever bad weather affects a critical mass of Members' districts, we have been reaching out and declaring an emergency and grabbing an extra billion or so every year for disaster assistance. That cannot continue.

I look forward to the testimony of all the various groups today. There will be many particular concerns which I believe can adequately be addressed so that this may be a truly comprehensive reform effort.

Mr. Chairman, I would also ask unanimous consent to put in two very short statements that were given to me at the Lubbock meeting that I had mentioned—one from the Plains Cotton Growers and one from the Texas Wheat Producers Association.

Mr. JOHNSON. Without objection.

Mr. COMBEST. Thank you, Mr. Chairman.

[The prepared statements of the Plains Cotton Growers and Texas Wheat Producers appear at the conclusion of the hearing.]

Mr. JOHNSON. We are anticipating a journal vote at about 11 today, so opening statements—we can keep them reasonably brief, but nonetheless I appreciate that people may have some opening remarks they choose to make.

Ms. Long.

Ms. LONG. No.

Mr. JOHNSON. Mr. Allard.



**OPENING STATEMENT OF HON. WAYNE ALLARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO**

Mr. ALLARD. Mr. Chairman, I'd just like to associate myself with both your comments and those made by the ranking republican of this subcommittee.

As a member of the Budget Committee, I would like to see some predictability in the budgeting process. I think that is what we are striving for here in this committee—to have some predictability not only in the Federal budget, but also in insurers, when they are looking at their budgets, as well as agricultural producers and other financial institutions that may be making loans to agricultural interests.

So I am interested and glad to see that we are moving along on this particular issue, because I think it is important, if we are going to have responsible budgeting at the Federal level and so our agricultural growers can have some expectations of what is expected of them if they find themselves in a disaster, and it is based upon more or less what they perceive would be their needs as far as insurance coverage is concerned.

Thank you.

Mr. JOHNSON. Thank you.

I have a couple of letters to submit for the record.

[The letter from Mr. Panetta and the letter from the American Agriculture Movement, et cetera, appear at the conclusion of the hearing.]

Mr. JOHNSON. Mr. Sarpalius.

**OPENING STATEMENT OF HON. BILL SARPALIUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. SARPALIUS. Thank you, Mr. Chairman. I, too, want to commend you for the witnesses you have today. I am especially anxious to hear the comments from the lending institutions that are here—different banks—to see if they feel this plan is satisfactory to cover the loans that they make to producers, and also to get their opinions on whether or not they think producers should have additional coverage. I'm anxious to find out how much that additional coverage would cost, and also if the appraisals that are made when losses occur—and, in their opinion, if they feel like they feel those appraisals are satisfactory to cover their losses.

Thank you, Mr. Chairman.

Mr. JOHNSON. We are going to be having a journal vote some time around 11, and I anticipate numerous other votes during the course of the day, which will necessarily cause some disruption, but I would caution the members of the subcommittee that I want to keep the time spent on votes to an absolute minimum. We will recommence the hearing very quickly after voting on each instance, so do come back as quickly as we can because we are not going to allow the disruptions to cause more problem than they already will.

Also, I have a prepared statement from Mr. Pomeroy for the record.

[The prepared statement of Mr. Pomeroy follows:]



Opening Statement  
Congressman Earl Pomeroy  
Subcommittee on Environment, Credit, and Rural Development  
April 21, 1994

Mr. Chairman, I look forward to today's hearing to learn more about the reaction of the key players in this debate -- commodity groups, farm organizations, bankers, and providers of insurance -- to the Administration's proposal to reform the crop insurance system.

This issue is of enormous importance to my state.

- North Dakota ranks first in participation in the nation -- measured by base acres enrolled -- for most commodities grown in the state.

- North Dakota producers have positive and productive relationships with insurance agents.

The result of the private-public sector partnership is a crop insurance product that is attractive to producers and works well for them.

Nevertheless, the product could be improved, the participation rate could be higher, the coverage could be a better buy for the value -- and all of these MUST be achieved by Congress if we are to ask producers to give up access to ad hoc disaster assistance.

Mr. Chairman, you all know that I supported changing the budget rules to shift the baseline to combine ad hoc and mandatory spending. I firmly believe that the House Budget Committee did the right thing -- in terms of accountability to taxpayers, of strengthening the system for producers, and of trying to move toward a system where each producer has more control over his or her individual risk.

However, I also believe the House Budget Committee did not go far enough. Yesterday, I sent a letter to the budget conferees signed by 15 members of the Agriculture Committee on both sides of the aisle who want to see crop insurance receive full funding. Without knowing whether the proposal will have full or partial funding, I fear that our discussions today are a bit speculative. Nonetheless, many of the issues we will discuss today are part and parcel of the existing system and should be addressed whether this committee considers legislation this year or next. I look forward to the testimony today.

Mr. JOHNSON. Welcome, Mr. Odom. Your full statement is received for the record. You may choose to summarize or however you choose to go about it.

Because we have a very long list of witnesses today, we will abide by the 5-minute rule—the green light, and then to the yellow and red. I won't gavel anybody down, but when you do see the red light come on, be thinking of winding up your remarks.

Why don't you proceed.

**STATEMENT OF BOB ODOM, COMMISSIONER, LOUISIANA DEPARTMENT OF AGRICULTURE AND FORESTRY, AND PRESIDENT, NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE**

Mr. ODOM. Thank you, Mr. Chairman.

I am Bob Odom, commissioner of the Louisiana State Department of Agriculture and also president of the National Association of State Departments of Agriculture. I appreciate the opportunity of coming before you this morning on what I think is a very, very important subject.

At the same meeting in Texas with Ken—he left Texas and went to Louisiana and spent 2 days there meeting with farmers in about four different areas throughout our State. I thought the discussions were very good. The interest is there, and it is obvious that we need a change.

The disaster program and the insurance program both working side by side are not what our farmers need in order to provide the security that we need in order to make the loans in order to stay in business.

One of the problems that I would mention is in our State and in some of the other States. From investigations in court actions, we have had misuse of crop insurance. We have had some people in some States that have farmed for crop insurance. That is not good for the mainstream farmer, nor is it good for agriculture, in general.

Many farmers throughout this country need a crop insurance program designed for the mainstream, low-risk, commercial farmer who is interested in financial protection in case of a loss due to drought, floods, or natural disasters, and we need a program that farmers can afford.

The proposed Federal Crop Insurance Reform Act of 1994 provides the framework to meet this need, and also provides the positive change needed if the Federal crop insurance program is to survive.

Additionally, the proposal eliminates the uncertainty of farmers receiving assistance from ad hoc disaster programs by providing catastrophic risk protection that is part of the crop insurance program.

Providing disaster assistance on an ad hoc basis as we do today tends to discourage participation in the crop insurance program. The possibility that a farmer will receive some type of assistance even if he does nothing to protect himself from a loss sends a very strong signal that crop insurance is an unnecessary expense. It is widely accepted that we cannot continue to have both programs be-

cause of the cost and because of the inequities in the assistance to provide poor and current disaster programs.

Farmers prefer a comprehensive crop insurance program that will help meet the financial security needs on an individual basis rather than the uncertainty of an ad hoc disaster program dependent upon wide area, multistate disaster and congressional approval of funds.

I support this part of the proposal which provides a permanent base level of support at a nominal cost to the farmers, yet costs no more than has been average cost to the taxpayer over the last 10 years or so in both disaster and insurance programs.

Specifically as it relates to the proposal, I support the following concepts that have been included:

One, a comprehensive Federal crop insurance program must meet the needs of mainstream, low-risk producers by offering them financial security in cases of drought, flood, natural disasters, and must have incentives to attract those producers to the program to insure a wide-spread participation.

For example, premium discounts should be offered to those farmers with good experience. Consequently, farmers who consistently have losses should be placed in high-risk pools and taken out of the actuary database to calculate the premium.

Additionally, significant premium discounts for high level of coverage are critical in order to attract participation at those high levels of coverage which are needed to make the program more fiscally sound. It is my understanding that these incentives will be included in this program.

Insurance coverage should be on the actual production history of an individual farmer on proven yields—proven through the farm service center when the reorganization structure is completed rather than to insurance companies through private agencies. This will reduce any attempt to assign production history to a farm on the production that does not occur.

Again, it is very important that we put it on an individual proven yield and not on some parish or some county basis that tends to lead to farmers farming for crop insurance rather than for their own production.

Farmers should have the option of buying the level of coverage they determine best meets their needs on an individual basis. Under the proposal, farmers may purchase additional insurance coverage providing high yields or price protection levels above the basic catastrophic risk protection for additional premiums.

The FCIC has stated that farmers will have more flexibility on yields and price and unit structure than is currently available, with the assurance that this program will be more farmer-friendly, with new products and new flexibility. Incentives are provided through premium discounts at high levels to encourage greater participation, which I feel is extremely important to the success of the program.

Premiums for the buy-up coverage must be reasonable and affordable for the risk involved in order to enlist the low-risk farmers into the program. Farmer records should be identified by farm serial number and Social Security number. And ad hoc disaster as-



sistance for all crops eligible for crop insurance should be eliminated.

I support the catastrophic risk protection program offered in the proposal at a 50 percent loss in yield indemnified at 60 percent of the expected market price. I do not feel that a lower base level coverage will meet the needs of farmers who choose not to purchase buy-out levels of coverage.

A base level of coverage that is too low will not provide the farmers with significant financial coverage to see him through a crop loss, and will only encourage calls for an ad hoc disaster assistance to make up the difference. This will find ourselves right back where we are today.

I also support the noninsurance assistance program that covers those crops for which crop insurance coverage is not offered today. Replacing the ad hoc disaster program with uncertainties and the catastrophic risk protection program for a noninsurance assistance program which contains a protection is critical to this proposal.

With both programs offered, available to the farmers who produce crops eligible for crop insurance, Federal crop insurance and ad hoc disaster, a conflict exists which creates uncertainty and provides a disincentive for low-risk producers to participate in a crop insurance program, thereby weakening the whole program.

The lack of participation creates a high loss ration to premium earned creating the need to increase rates, which further aggravates the participation problem. Combining these two programs into one eliminates uncertainty and meets the needs of farmer participation in their financial planning and banking relationship.

Mr. Chairman, thank you for the opportunity to participate in this very important hearing today and allowing me to express NASDA's support for the administration proposal, Federal Crop Insurance Reform Act of 1994.

The current program is not serving the needs of mainstream commercial farmers, and a total reformation of this program is needed.

Thank you.

[The prepared statement of Mr. Odom appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Commissioner Odom, for your views and the views of NASDA. I particularly appreciate your emphasis on the concern for actuarial soundness and the emphasis in the program.

Let me ask you: In 1980, Congress reformed crop insurance and said "never again" to ad hoc crop disaster payments. We know what happened after that.

This time we are saying we really mean it, we are going to change the budget rules so that future ad hoc programs would have to be funded either by higher taxes or by cuts in other spending.

How much credibility does that have out in the countryside in Louisiana? Do farmers really—are they going to believe us when we say this time there is not going to be an ad hoc disaster payment so you'd better sign up for crop insurance?

Mr. ODOM. I believe that if we see the disaster provision put into the bill as we see it here today and we require—and I know that requiring is, in a lot of terms of farmers, is a nasty term, but I do



feel that for the price that they are saying—\$50, no more than \$100—that it ought to be mandatory in the program.

Under that scenario, and for it to be successful, we've got to make sure that program develops an opportunity for that farmer—that mainstream farmer who wishes to buy up 75 or 85 percent coverage—to have that opportunity at a reasonable premium.

The reason that ratio has been so great is we have not had in the program, in my State and a lot of the other States, that farmer that has always been in the top of the production that would make the program fiscally sound. We have had too many people in the program to farm for crop insurance.

As long as we have that, we will not have a program. That's why it is important, again, to have it by Social Security number, have it on individual yield. If you put it on individual yield and you continue to have a bad year, you are not dependent on that average, you're dependent on your yield. It has got to be proven.

We have proven yields for years at ASCS offices, and it has not—it ought to be on a proven record. I think that would put the fiscal soundness in the program, that farmers will see that it is sound. And yes, I believe that we will see that it is real. And yes, I believe that they will participate in the program.

Mr. JOHNSON. Mr. Combest.

Mr. COMBEST. Mr. Chairman, I have no questions.

Mr. JOHNSON. Ms. Long.

Ms. LONG. I don't have any questions either.

Mr. JOHNSON. Mr. Sarpalius.

Mr. SARPALIUS. Mr. Commissioner, you have indicated in your statement and just a while ago your concerns basically of farmers who would probably farm the program, or abuse the program, which does occur.

In your opinion, do you think if we provide this insurance program for more producers—do you think the bill is strong enough, or this legislation that we are looking at, or program we are looking at, is strong enough to discourage farmers from farming the program?

Mr. ODOM. I don't think you'll ever stop all the thieves. I think that we've got to do some other things to make sure that happens. I would like to see a mechanism. I support a mechanism that a lot of people may not support, but I think we need to involve county agents in this thing. I think somebody needs to go and make sure that all the farmers that are signing up are carrying on normal farming activities.

If we put it on an individual farmer's yield, if that yield continues to go down that coverage has got to go down, and it depends upon what that production is.

I think that will help solve that problem.

Yes, I think we'll always have somebody misuse any program, but I think we'll get the majority of the farmers that will not. And I think today that we've got the majority of the farmers participating. Unfortunately, those that are farming for the program are the ones that get newsworthy.

I think the adjusting of the claims is as important as the coverage, and I think that we've got to work some things out in the adjusting of the claims to make sure that whoever adjusts the

claims—whether it is a county agent, whether it is somebody else doing it—that a normal farming activity is carried on.

I happen to be elected as commissioner of agriculture. One of the things that I happened to have done before—I was in a consulting business. I did a lot of crop damage evaluation work for most of the major insurance companies on pesticide damage. One of the things that had to be is that you had to prove what that production would have been on that farm under normal circumstances when that loss was there and not on some other type of average or basis, and that's what we've got to do in the crop insurance program.

Mr. SARPALIUS. Thank you.

Mr. JOHNSON. Mr. Allard.

Mr. ALLARD. No questions, Mr. Chairman. Thank you.

Mr. JOHNSON. Mr. Minge.

Mr. MINGE. Thank you. I have a couple of questions.

I appreciate your being here on behalf of not only Louisiana, but other States.

I have reviewed the statistics over the last decade for the pay-outs under Federal crop insurance compared to the income that has come in from different sections of the country, some county-by-county, and we have some dramatic regional disparities, and even disparities within States.

There is a fear that if the Federal Government does not subsidize Federal crop insurance to a very heavy extent, that certain crops in certain areas—and I think that perhaps your part of the country is favored somewhat more than the upper Midwest where I come from in this regard—it would be very, very difficult to finance crop insurance with premiums in the South and the Southeast.

Do you have any observations on that?

Mr. ODOM. The mainstream farmer in the South and Southeast does not participate in crop insurance program, and I think that's the reason you see the difference in the loss ratio.

We have to have a program that gets those involved. I would say in sugar production you have probably got less than 5 percent. In cotton, I would say—and I haven't seen these figures—you've probably got less than 15 percent. I'm talking about Louisiana specifically now.

Again, the problem that is there is that when we put it on a parish average, most of those farmers in a disaster year have to make better than the parish average to stay in business. That's why the program, the way it has been designed, has tended to give an incentive to farm for crop insurance rather than farm for the production, and we've got to take that out of it. If we don't take that out of it, I don't care what we do—we still won't have a program that is fiscally sound.

Farmers in my State and farmers throughout this country have got to have a program that bankers are satisfied with in order to be able to have the loans in order to be able to stay in production agriculture. That's why I came back and said a few minutes ago I think this proposal is in the right direction.

I think we've got to look at the adjusting side of it, as well, and make sure it follows, and I think that can be done administratively, but it has got to follow along with it.

If we find somebody misusing the program, he needs to be brought to task and brought to task severely because that affects all of the farmers.

Mr. MINGE. Do you think that farmers in the South and Southeast will participate in the program rather than rebel and say we can't afford crop insurance because the premiums would be too high given the frequency of a hurricane system coming through, which is so devastating compared to the less common threat of that type of an occurrence in some of the other parts of the country?

Mr. ODOM. Yes. But I think one other thing—I think when we look at the premiums, if we looked at the premiums today he can't afford—the mainstream farmer can't afford it because the risk ratio is not there. We are going to end up having to look at a premium incentive for that 85 percent carrier. In most of the cases, that 85 percent carrier is going to be a less risk of loss than somebody down into a lower range, because if you look at his production record—and we are going to have to look at that. We are going to have to look at what his record has been, and then we know actuarially how sound that insurance for that individual farmer would be.

But yes, I think that if we got a premium that was reasonable to get him involved—and one of the things I see this does with everybody participating is it builds that database that we've got to have.

Mr. MINGE. Let me ask another question before my time expires. I am also very concerned that the Federal Government is having trouble financing the Federal crop insurance subsidy. The Senate has balked at this.

I know in Minnesota we have a \$600 million budget surplus, and they are trying to figure out what to do with it—have a tax holiday, or what are they going to do up there? That's a happy problem.

The question I am going to pose to my Governor and State legislature is: Is the State of Minnesota prepared to participate or join hands with the Federal Government in Federal crop insurance or some other program which is important to our State? I would ask you, as a representative of the State of Louisiana or other State agricultural commissioners, if you think that a State-Federal partnership is in the cards at all with respect to this problem if we have trouble trying to come up with the money that all of us recognize we have to have for a good crop insurance program?

Mr. ODOM. In my State I am looking at \$1 million below last year's spending, 51 positions below last year's position level. It would be awful tough to come with a new program.

As you know, we have a saying in Louisiana, "We've been so rich, so happy, so fat, so dumb, and all so long it has been hard for us to make other changes." Now we are trying to do that. I think it would awfully tough at this time to make that change.

I believe that if we can put the expenditures that we have spent in the disaster programs and in the crop insurance that we can make it fiscally sound, and I would have to say that under the conditions that I see other States in—and I know that some of the other States are in the same shape that we are in—it would be a better way to go. That would be a tough issue for all the States.



Mr. MINGE. Thank you.

Mr. JOHNSON. Mr. Ewing.

Mr. EWING. Thank you, Mr. Chairman.

Commissioner, I represent central Illinois. I'm not thinking about buying extra insurance, but I am thinking about the disaster provisions of this proposal, the 50 percent proposal. Many times, even when we have a very bad year, the crop yield doesn't fall below 50 percent.

What would you think in your State of allowing for some options where maybe they would have, instead of the 50 percent production with the 60 percent payout, have a 60 percent loss with only a 40 percent payout? Do you think more producers would find that attractive?

Mr. ODOM. I'd have to look at the economics of that. Until I sat down and looked at how the 60 percent and 40 percent economically worked out, I really don't know.

Mr. EWING. You mentioned options—and I don't want to interrupt your thought there, but to me this is the kind of option we could give to producers to select that which is going to give them the most protection.

Mr. ODOM. The biggest concern that I have had—and the medians—we had, again, four or five medians there. The farmers want to see a premium that is affordable. To me, if we could come with a premium for that 75 percent coverage and 85 percent coverage that was affordable, it would be a better option than increasing the disaster provision of it.

I think what we are looking at is disaster provision that has kind of been based on what we have been able to receive in the past history on disaster as disaster has been provided.

See, the advantage that an individual farmer has got on this program, as I understand it, over the other disaster program is that the other disaster program was on parish average. This is going to be on an individual farmer's average, so that guy that makes a much higher production, that farmer's average is going to have an equal opportunity at that 50 percent than he would have had before. To me, that helps the program, but I can't answer the other. I just don't know the answer.

Mr. EWING. Thank you.

Mr. JOHNSON. Mr. Baesler has gone to vote.

Mrs. Thurman.

Mrs. THURMAN. Mr. Commission, I'm Karen Thurman from Florida. I have asked many of my different associations and groups in Florida to kind of look over this bill, and they have some concerns, particularly in the area of specialty crops because of the issue of trees. In fact, one of our subcommittees had a hearing on that, and we had people from all over this country to speak on some of those kinds of things.

Have you all done anything with the specialty crops issue? In particular, do you feel comfortable with the way that coverage is under here?

Mr. ODOM. We, too, have some specialty crops—strawberries—similar to you and some of the other producers. In the insurance coverage it would be the same offer offered under specialty crops.

Crops are being considered. I don't have that list. I don't remember what they are.

But the advantage that I see, again, is this will give those farmers at least a known disaster or an ad hoc disaster provision that they know they are going to get a 50 percent and a 60 percent price. They are not going to have to depend upon it being large enough or big enough for a national disaster or for the money to be provided by Congress.

I am told by the administration that they are going to continue to work on those crops and bringing them into the program. To me that's an advantage.

Mrs. THURMAN. With the other issue of some of the specialty crops or trees where, in fact, there is——

Mr. ODOM. Did you say trees?

Mrs. THURMAN. Fruit-bearing tree of some sort. Something like citrus. That comes to mind—where the fruit actually is being covered, however if the tree is damaged and killed it is a 5-year production issue for them because they have to replant the tree, and then, of course, it is a 5-year period of time—maybe less than that. That is a big concern for them in these kinds of programs.

Mr. ODOM. You know, we have just a little bit of an area that grows a little naval orange.

Mrs. THURMAN. We don't recognize it, but that's OK.

Mr. ODOM. I understand. The problem that we have there is that we have the freeze. We have a freeze that will come through, and about 5 or 6 years ago it totally wiped that industry out and there was very little protection and very little coverage, and that is a concern for us.

I'm not sure that would be addressed in the insurance. The only part that would be protected as far as I see here would be in the ad hoc disaster provision.

Mrs. THURMAN. Just so you'll know, when folks came from all across the country on this particular issue there was a lot of concern about that because there evidently had—before I was here, there had been conversation that it, in fact, was being taken care of; however, when the rules were done evidently that kind of crop went out of there. So I just bring that to the attention that we have actually given some language to talk about that, so if you can help us through we'd appreciate it. And then we might talk about the naval.

Mr. JOHNSON. I have been advised that our staff has been working with the nurserymen and the fresh fruit and vegetable folks and will get comments for the record from the nurserymen directly, and the gentlewoman from Florida may want to consult with Mr. Limbaugh to see what else is going on in the citrus industry.

Mrs. THURMAN. I can't respond to that.

Mr. JOHNSON. We have had a 10 minute warning.

Mr. POMEROY, do you have anything.

Mr. POMEROY. Yes. I'll be brief. I think we can get it in easily.

First, Mr. Chairman, I want to commend you for this hearing and the series of hearings you have had. I apologize that another meeting prevented me from attending the opening.

I have an opening statement I'd like included in the record, but I won't read it.



Mr. JOHNSON. Without objection, your prepared statement was placed in the record.

Mr. POMEROY. Thank you. Commissioner, I used to be a State insurance commissioner, and I can report some familiarity with the loss adjustment issues that you allude to. I do think that the loss adjustment is something that we need to look at should this program move, making certain that losses are being adjusted in a uniform way and that companies are not competing for business based on relative leniency in loss adjustment. That will be very important to making this program actuarially sound.

I particularly agree with the part of your testimony found on page three where you talk about the importance of bringing in participation, increasing participation, particularly at the higher levels, and that the subsidy for the buy-out is really a critical piece of this picture if we are going to make the reform proposal work.

Would you care to elaborate on that just a bit?

Mr. ODOM. If we don't get 85 to 90 percent participation, it is going to be hard to ever make the program actuarially sound, because what you are going to be getting in that is the producers that are in the top area that are going to have very small ratio, based on the fact—and I'm speaking of my State now because I am familiar with that—based on the fact that in the past we have had it on a parish average, and on a parish average the yield production did not affect that loss ratio.

If we get those top producers that are in—and that's what we have to do—we will see it, I believe, much more actuarially sound, and then we know then from the history of the record of all of the farmers what that premium has got to be in order to make it actuarially sound.

What I see as the Federal side of it is then coming in with enough dollars to make it cheap enough to be affordable so that farmer can stay in business and then that bank there is comfortable with him to make the loan so he can stay farming.

Mr. POMEROY. It's absolutely right and absolutely essential. If this is funded at an insufficient level, we'll merely be basically prefunding catastrophic coverage, doing nothing to meet the insurance needs of production agriculture. And that is going to have a resulting farm credit implication, as well, which I think could be very serious.

Mr. ODOM. You're absolutely right.

Mr. POMEROY. Thank you.

Mr. JOHNSON. Thank you, Commissioner Odom, for your work with us on the subcommittee today. We appreciate your insights.

I have asked Ms. Long of Indiana to vote early and then come directly back to pick up chairing this subcommittee so that we minimize the gap of time. I am going to go vote, but that should keep the gap to a minimum.

The second panel is: Mr. Phil Burns, president of Farmers and Merchants National Bank of West Point Nebraska, on behalf of the ABA; Larry Diedrich, president of the American Soybean Association of Elkton, South Dakota; Mr. James F. Hart, president and CEO, Hand County State Bank of Miller, South Dakota on behalf of the Independent Bankers Association; Mr. Chuck Merja of Sun River, Montana, secretary-treasurer of the National Association of

Wheat Growers; Mr. Myrl Mitchell, chairman of the crop insurance advisory task force, National Cotton Council, of Lenorah, Texas; Ms. Katherine Ozer, director of National Family Farm Coalition of Washington, D.C.; Mr. Doyl Rahjes of Agra, Kansas, president of Kansas Farm Bureau, and board member of American Farm Bureau Federation of Washington, D.C.; and Mr. Lee Swenson, president of the National Farmers Union of Washington, D.C.

We would appreciate your coming forward. However, I am going to recess the subcommittee momentarily to take care of this vote. Hopefully we will be back in action very soon.

[Recess taken.]

Ms. LONG [assuming chair]. We will reconvene, and we are going to take Larry Diedrich first because he has to catch a flight.

We will begin with Larry Diedrich.

#### **STATEMENT OF LARRY DIEDRICH, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION**

Mr. DIEDRICH. Thank you. I appreciate it.

Good morning. My name is Larry Diedrich, as you indicated, and I am a soybean, corn, and hog producer from Elkton, South Dakota, and currently serve as president of the American Soybean Association.

We do appreciate the opportunity today to testify on behalf of the Federal crop insurance program and to propose a few improvements on the program.

Soybean producers traditionally have not been participating at the level that they probably should be in the crop insurance program. There are many reasons for that, but part of it is the perception, as was indicated earlier this morning, that better farmers—it is not a good value for them, and that the people that are taking crop insurance are taking it with the intention on using the crop insurance.

However, I think over the last couple of years, with record losses resulting from drastic weather patterns, coupled with improvements that have been made in the program, this attitude has changed with soybean producers. Many are reconsidering the option of crop insurance.

My brother and I are examples of that. We will be new participants in the Federal crop insurance program this year for the first time, insuring both our soybeans and corn.

We have found several improvements in the program, including the late and preventive planning coverage for soybeans, and with our records we are able to utilize the actual production history yields, which helps benefit us considerably.

However, I could recommend changing current policy for drilled soybeans. It currently costs 25 percent more to cover drilled soybeans as opposed to conventional row-planted soybeans, even though drilled soybeans produce higher yields.

Many producers in our region plant with the drill because of the no-till, which is coming into practice. We feel we should not be penalized for updating and improving our efficiencies.

Soybean producers, as well as other farmers, need risk management tools to provide income security and stability. The Federal crop insurance program could and should be a useful means for

doing just that. The administration's reform proposal is a step in the right direction. Producers do need protection from catastrophic disaster.

Under current budget constraints, ad hoc Federal disaster assistance will become harder and harder to count on. The administration's proposal guarantees basic coverage for catastrophic disasters to all producers at a very minimum cost. It also gives the farmers' lenders assurance of guaranteed protection against extreme disasters.

The administration's catastrophic plan in itself does not offer complete risk management. We must improve the current crop insurance program to accomplish this. It is my understanding the administration's proposal will continue to offer the options of additional coverage at the 65 and 75 percent levels at slightly below current cost.

Many of our members would favor adding the option of an 85 percent coverage, as was indicated earlier this morning. In addition, all graded yields should be based on actual production history.

Test counties in 24 saving producing States now offer the group risk plan. Although participation has not been great and it is too early to really assess how this program is going to work, we do have some concerns with this particular test plan by fact that if a small amount of farmers in one side of the county have either a flood or hail or something like that and it affects their production considerably, whereas the whole county is not affected a great deal, those people would not be covered to the extent that they need to be, so it does have some weaknesses in that area. I will admit that views on this do vary region by region.

Views and concerns regarding the provisions in the administration's reform package vary region by region, as producers. However, I would like to mention three special significances mentioned by our membership.

First, in the delivery of the program: Opinions differ on the preferred choice of delivery for crop insurance. As you know, most producers in my region would prefer private companies handling crop insurance. However, in the South where there have been problems with some agents and companies, many producers feel ASCS or the proposed Farm Service Agency should manage these insurances.

My hope is that, regardless of who offers the insurance, that it be handled consistently and that handlers be responsible and accountable for policies, as was mentioned also earlier.

Second, when we talk about linkage of crop insurance to farm programs: currently under the proposal it is a very minimal fee to sign up for the crop insurance, but farmers do have concerns that it is the program now, we do not know what that program is going to be in the future, and there are concerns that if we set the precedence of mandating a linkage to farm programs that, as this program may change, that precedence may stay with it. There is some concern in that area.

In the area of price selections, many of our members, particularly in the South, are not satisfied with the current pricing formula system. They favor price selection more reflective of local prices. For example, the highest price selection in my State is \$6. That is a fair price for me. However, \$6 is probably not the right price for



down in Louisiana. They may need \$6.50 to cover their higher input cost and better reflect their market basis.

If there are suggestions, there may be a suggestion to change that and make sure we have a wide enough price range to adapt to every farmer's needs.

I do appreciate this opportunity to be here today and to express some views and concerns of the U.S. soybean producers regarding the Federal crop insurance program. I do not envy the committee's challenge as you tackle the growing need to improve our system and wean producers from ad hoc disaster assistance.

I would be happy to provide additional information on other aspects of the proposal or the current crop insurance program as needed.

Thanks again for this opportunity.

[The prepared statement of Mr. Diedrich appears at the conclusion of the hearing.]

Ms. LONG. Thank you, Mr. Diedrich.

Since you do have a very tight time constraint, if there are any questions we will present those for you.

Mr. DIEDRICH. I appreciate that.

Ms. LONG. There are no questions, so, without objection, if any do come up with other members as they return from the vote, we will submit them to you and your response will be submitted for the record.

Mr. DIEDRICH. Thank you very much.

Ms. LONG. Thank you. Our next panelist is Mr. Phil Burns.

#### **STATEMENT OF PHIL BURNS, PRESIDENT, FARMERS AND MERCHANTS NATIONAL BANK, WEST POINT, NE, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION**

Mr. BURNS. Thank you, Madam Chairman.

Members of the subcommittee, I am pleased to be here today on behalf of the American Bankers Association to participate in this hearing regarding H.R. 4217, the Federal Crop Insurance Reform Act of 1994.

My name is Phil Burns, and I am president of the Farmers and Merchants National Bank in West Point, Nebraska, and we are located about 50 miles northwest of Omaha. I currently serve on the American Bankers Association Agricultural Bankers Agricultural Bankers Executive Committee. My bank has \$65 million in assets, and a loan portfolio of \$50 million, of which about \$35 million are loans directly to agricultural producers. Crops in our service area include corn, soybeans, and alfalfa.

Like many other banks across the Nation, we own a full-service insurance agency which we bought about 4 years ago; however, we have been selling crop insurance for the past 10 years, as we entered that business several years before we bought the full-line insurance agency.

As many of you know, the American Bankers Association is the national trade and professional association for America's commercial banks, from the smallest to the largest. ABA's members represent about 90 percent of the industry's total assets. Approximately 94 percent of ABA members are community banks like ours

with assets of less than \$500 million. Over half of ABA's 12,000 members have important agricultural concerns.

It is good to be here today to make a brief statement and to answer any questions you may have.

To begin, the banking industry would like to commend Chairman Johnson, Congressman Combest, and the entire subcommittee for looking at ways in which we can effectively address crop insurance and disaster assistance issues. Further, America's small and large banks support adequately funded crop insurance reform at the Federal level.

Your interest in improving the crop insurance program by providing reliable catastrophic coverage on the basis of individual farmer's needs and reducing unreliable ad hoc agricultural disaster programs is a good move for our Nation's farmers and for the rural communities about which we are all concerned.

Emphasis on crop insurance sales through the private sector wherever possible is also a step in the right direction.

Banks across the country are primarily concerned about the availability of crop insurance which can be consistently and efficiently used as collateral. We know that dependable crop insurance can and frequently does mean the difference in whether banks are able to approve operating loans and other types of credit for farmers who are struggling to stay ahead in high-risk situations and in challenging agricultural markets.

Like many other banks, our bank is an active participant in Farmers Home Administration guaranteed lending programs. Farmers Home requires the purchase of crop insurance before loans can be processed.

We join other banks across the country in looking for ways to help beginning farmers and ranchers, in particular, who are often high-risk borrowers. Adequate crop insurance coverage helps us to continue to serve these and other customers.

Mr. Chairman and members of this subcommittee, commercial banks join you in looking for ways in which cost-effective and reliable types of crop insurance can be made available at reasonable prices. Crop insurance is one of the Government-assisted programs utilized by commercial banks to effectively serve rural economies.

The banking industry is interested in working with you to consider reasonable ways in which we can continue meeting the various needs of all rural communities.

Mr. Chairman, in closing, American bankers are interested in working with you and members of this subcommittee to advance an adequately funded and reliable crop insurance program which can meet the various needs of the farmers we serve.

Thank you for this opportunity to express the concerns of small and large banks across our Nation.

Attached to my printed statement are specific responses to your questions regarding H.R. 4217.

I would be happy to address any questions at the appropriate time.

Thank you.

[The prepared statement of Mr. Burns appears at the conclusion of the hearing.]



Mr. JOHNSON [resuming chair]. I think Mr. Diedrich had to leave to catch a plane, as I understand, so we will proceed next to Mr. Hart.

**STATEMENT OF JAMES F. HART, PRESIDENT AND CEO, HAND COUNTY STATE BANK, MILLER, SD, ON BEHALF OF THE INDEPENDENT BANKERS ASSOCIATION OF AMERICA**

Mr. HART. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is Jim Hart. I am president and CEO of the Hand County State Bank in Miller, South Dakota. I am pleased to be here today to testify on the administration's crop insurance reform proposal on behalf of the Independent Bankers Association of America, better known as IBAA.

IBAA is the only national trade association that exclusively represents the views of the Nation's community bankers. I will abbreviate my remarks, Mr. Chairman, and submit my entire statement for the record.

Mr. Chairman, let me begin by congratulating you on your election as chairman of the Subcommittee on Environment, Credit, and Rural Development. All three of these subject areas—environment, credit, and rural development—are critical to the future of the State of South Dakota. So, from strictly a personal standpoint, if you will excuse this expression, we've got you right where we want you.

But we also thank you, Mr. Chairman, for making crop insurance reform one of your earliest priorities in this subcommittee and for scheduling this hearing today.

Reforming the Federal crop insurance program is certainly not an easy task, and we are grateful to you for taking the initiative to move this process forward.

First, bankers use crop insurance. Crop insurance is important to agricultural bankers because many of us use it to collect collateral on operating loans. To put it very simply, we would rather lend on a contract than a promise.

A crop insurance policy is an effective and reliable backstop for agricultural loans, while ad hoc disaster payments, which may or may not be there when needed, are not.

Your proposal is fundamentally sound. Is the reform legislation on the table perfect? No. Not by any means. Is it IBAA supported? Yes, 100 percent.

While some of us may want to take around the edges of the proposal, the underlying concept that combines disaster relief and crop insurance to form one catastrophic protection program for all farmers is such an improvement over the existing system that it should not be jeopardized by our desire to make it perfect.

Farm subsidies are in decline, Mr. Chairman. At last year's Agricultural Outlook Conference, Secretary of Agriculture Mike Espy said, "I have seen the handwriting on the wall. U.S. budget support to agriculture will continue to decline. They can scream, they can curse, they can lambast, and sometimes even cause delays, but the fact is that U.S. budget support for agriculture will continue to decline."

This was never more evident than during last year's appropriations process when two very popular and traditional farm programs—the wool and mohair program and the honey program—were abolished. What is next? Tobacco? Peanuts? Cotton? Rice? Wheat? It is anybody's guess.

With this prospect being laid directly on the table, it becomes even more imperative for farmers and ranchers to begin to manage their farm risks more prudently.

Having said that, Mr. Chairman, let me briefly address several features of the bill in more detail and make some recommendations for making the package a more effective risk management program for our Nation's agricultural community.

First, repeal disaster authority. Authority for ad hoc disaster programs must be repealed. Without this, no reform package will work. It is just that simple. So long as farmers and ranchers know that if financial disaster strikes they can easily count on the Federal Government to bail them out, there is no incentive for them to purchase crop insurance—and who can blame them?

If Congress passes everywhere just crop insurance reform proposal but fails to terminate the authority for ad hoc disaster programs, the reform proposal simply will not work. There will be no incentive for farmers to self-protect, and a vicious cycle of annual ad hoc relief programs will continue.

Second, cross-compliance is also a key. We strongly support the cross-compliance features of the proposal and feel that this is, too, a key to the program's success. You cannot go out and buy a house today and get a loan without first buying fire insurance. You can't buy a car off a lot without auto insurance.

If the Federal Government invests in the farmer/rancher through subsidized loans, deficiency payments, CRP, or anything else, the Government has the right to protect that investment by requiring producers to carry crop insurance.

Three, we believe price competition is good. We support the provision that allows more efficient insurance companies to reduce rates charged to farmers and ranchers. Price competition is fundamental to the free market system. It has worked in every sector of our economy and has ensured Americans the highest quality product and service at the lowest possible prices. We believe price competition would have the same effect on crop insurance.

We believe dual delivery system is a concern. Along these lines, while we support the feature of the bill that requires farmers to purchase higher coverage policies exclusively from private agents, we have some concerns about delivering the basic catastrophic coverage programs through Federal offices.

Many of us remember when crop insurance was sold in ASCS offices. This was not a good situation. ASCS employees did not have at that time—and probably will not have in the future—expertise nor the incentive to deliver these products in an efficient, conscientious manner. The resultant attitude will be, in my opinion, the same, and many producers will not get adequate guidance on other buy-up opportunities that might better suit the individual requirements.

We should make crop insurance funds mandatory. We support moving crop insurance from discretionary to the mandatory account

to make it less vulnerable to political manipulation. Under current law, the crop insurance program is a hostage to the appropriations process. If crop insurance is going to be the only risk protection program available to farmers and ranchers, they must have the full faith and backing of the Federal Government by moving it over to the entitlement accounts.

The IBAA supports supplemental products, Mr. Chairman. We believe that expanded authority should be given to the private sector to develop programs and policies to provide higher levels of protection at affordable prices.

One concept IBAA has endorsed is the concept of disappearing deductibles under which the deductible grows smaller as losses grow larger, so that if a farmer has 100 percent loss, he or she would receive 100 percent indemnity.

Another idea is converting the program from yield basis to income basis. Buying dollar coverage per acre is a concept easily understood by both the producers and the lenders, and it provides an insured catastrophe in which credit could be easily assessed.

In conclusion, the administration's crop insurance program will take the public/private partnership that already exists and strengthen it to the benefit of our Nation's farmers and ranchers and the communities they serve. In the process, it will save taxpayers over \$750 million over 5 years. That would be hard to beat.

We hope that you will take advantage of this opportunity to provide long-term protection to American agriculture, including farmers, ranchers, lenders, agribusiness, and Main Street America shop owners by approving the administration's crop insurance reform proposal.

Thank you again, Mr. Chairman, for the opportunity to testify on behalf of our Nation's community bankers. I would be happy to respond to any questions you may have.

[The prepared statement of Mr. Hart appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Hart.

We will proceed next to Mr. Merja.

#### **STATEMENT OF CHUCK MERJA, SECRETARY/TREASURER, NATIONAL ASSOCIATION OF WHEAT GROWERS**

Mr. MERJA. Thank you, Mr. Chairman.

My name is Chuck Merja, and I am from Sun River, Montana.

We, on our farm, have utilized crop insurance since well before the last reform in the early 1980's. We raise wheat and barley.

I want to thank you for the opportunity to present our views today to the subcommittee. I am serving as secretary/treasurer of the National Association of Wheat Growers. That association has felt that a Federal crop insurance program that was revised and workable has been a long-time goal of our association, and we support the reform proposal contained in the administration's 1995 budget request.

I would remind you, 55 years ago the first commodity covered by Federal crop insurance was wheat. We are familiar with the administration's proposal and think that it is a very good starting point for a viable program.



In standing behind the fundamental concept that provides for low-level catastrophic coverage of all farm program participants, we are taking a bold step that many of us have previously been unwilling to take. But we think, with continued budget pressures facing all Government programs and the solid policy reasons favoring an insurance approach to disaster relief, we believe the time is right to consider change to a single, predictable approach to disaster relief.

The administration's approach reflects truthful budgeting, budget discipline, and good public policy, improved risk management options for farmers, and reduced cost for taxpayers. However, the National Wheat Growers is unwilling to step completely away from standard disaster authority unless and until the program is proved to be effective.

Extensive debate has already occurred as to who delivers this program. I think I have even learned a little bit more here today about that from Mr. Diedrich.

In Montana we are very comfortable, and in the wheat country we are very comfortable with a dual delivery system. In my State I would predict that the agents would be the deliverers because we have a fair coverage of agents, and also 90-some percent of our acres are involved in crop insurance. In other areas—even in other wheat areas—that isn't the case, and so ASCS may be a better delivery system in those areas.

We are concerned about linkage. We understand the issue of linkage, but we are concerned that the costs remain as they are and not begin to reflect risk acreage or crops. As Mr. Diedrich said, if we change the program and continue the linkage, there is some concern that we will get tied into a program that may or may not be adequate or something that we care to participate in.

With regard to new crops, we understand that FCIC—and would encourage FCIC within its limits to look at new crops. One that we would suggest is for seed wheat. We have many producers that raise wheat that is of significantly higher value than current market price elections and are not able to insure that entire risk.

National Wheat Growers participated in a crop insurance task force 2 years ago that recommended the 4-year building to 10 actual production history plan. As such, we are supportive of how the plan benefits producers with good production history who have been blessed with good production in the past few years.

However, the change to the new, more aggressive APH formula has not been without pain. Whether or not a reform package moves through Congress, the highest priority for FCIC should be to develop and implement an affordable catastrophic yield clause that puts the brakes on yield declines for producers with multiple catastrophic losses.

I would just point out that in 1984, 1985—since the reform package went through, in 1984, 1985, 1988, and 1992, my particular county was declared a disaster county. I'm still using those yields in my APH election, even though we have recognized, through the disaster status, disaster recognition, that those were significant anomalies in the weather.

At the same time, the administration's decision to base catastrophic yield coverage from individual APH yields as opposed to

counting averages is a vital and important component of the current reform package. Again, whether or not reform goes through, we think that FCIC should implement a de minimis yield clause. Lack of that really causes problems in small grain country.

We would also encourage FCIC to use its authority to become even more customer oriented, and issues that would, in our mind, come to the friend there would be the seed wheat policy, the de minimis yield, and maybe a look at a gross revenue insurance of some sort. We think they could do that without having authority. They already have authority to do that.

In that regard, more flexibility in the market price election would be very helpful, too. There really needs to be a better mechanism to deal with the different values of wheat that we raise in this country.

Thank you very much. I would take any questions.

[The prepared statement of Mr. Merja appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Merja.

We'll turn next to Mr. Mitchell.

#### **STATEMENT OF MYRL MITCHELL, CHAIRMAN, CROP INSURANCE ADVISORY TASK FORCE, NATIONAL COTTON COUNCIL OF AMERICA**

Mr. MITCHELL. Thank you, Mr. Chairman.

My name is Myrl Mitchell. I'm a cotton producer and ginner from Lenorah, Texas, and I utilize the multiperil crop insurance program as a risk management tool for my operation.

I serve as a member of the board of directors of the National Cotton Council and as chairman of its crop insurance advisory task force. We commend you for holding this hearing.

In the interest of time, I will summarize my written testimony.

The National Cotton Council supports the concepts included in the Secretary of Agriculture's crop insurance reform proposal. Obviously, the Devil is in the details. I must caution, however, that many cotton producers are skeptical that a workable crop insurance program can be developed.

It is critical that FCIC staff continue to listen carefully to reasonable concerns and develop provisions that truly make the crop insurance program useful to all farmers. It is not possible to design a one-size-fits-all policy.

We are actively working with other commodity groups seeking full funding for the plan. Without adequate funding, the new program cannot provide improved risk management for producers. While our industry supports the administration's catastrophic program as the principal mechanism for reform, we also maintain that flexibility with different coverage options is necessary to increase participation and meet specific regional and crop needs.

Most cotton farmers would be interested in the higher levels of coverage. In fact, many irrigated operators are interested in coverage at 95 percent of actual yield. Consequently, we would support efforts to further reduce the cost of higher levels of coverage. While skeptical of the precedent, producers have generally accepted the voluntarily mandatory aspect of the plan, which requires payment



of a \$50 processing fee for coverage for participating in farm programs.

We support the option for producers to buy the basic level of coverage at its local farm service agency or through private insurance agents. We understand buy-up coverage would only be available through private insurance agents.

Mr. Chairman, in anticipation of action on crop insurance reform this session, the cotton industry has hosted or participated in a series of meetings throughout the cotton belt to hear comments from producers on the Secretary's reform plan. I participated in a session in Lubbock organized by Mr. Combest and one in Abilene organized by Mr. Stenholm. FCIC Manager Ken Ackerman and members of his staff attended each meeting. The remainder of my testimony will focus on common concern raised in those sessions.

First, producers believe that the program should include a catastrophic yield adjustment when calculating actual production histories which include years with disaster provided their was a workman-like effort. Thanks to encouragement from members of this committee, FCIC has recognized this problem and has developed an actuarially sound proposal that is under consideration. Upon initial review by our industry, FCIC's approach has merit.

Second, the addition of a harvest incentive and a de minimis yield would enhance the operation of crop insurance in many areas. One suggestion would be to allow producers to harvest the crop and not count the production equated the cost of harvest against any loss for crop insurance payment purposes.

Consideration could also be given for third party verification on zero or disaster yields.

In addition to improving the program, harvest incentives benefit the processing and marketing industry segment. On the other hand, a reasonable de minimis yield provision would help in areas which lose their crop early in the season.

Third, there are optional products that could further enhance the value of crop insurance to the producer. One of the points made at many of the regional meetings was the need to have programs that will entice producers to buy up or offer them alternative coverage.

One concept particularly interesting to our industry is a program based on insuring cost of production. We have received encouragement from FCIC to continue to pursue this approach.

Consideration should also be given to premium setting flexibility on irrigated operations which constitute lower risk. We also support a provision allowing individuals to transfer actual production histories to similarly classed farms rather than being assigned an insured yield of 65 percent. We believe participation would increase if these matters received attention.

Fourth, often losses in crop quality are more economically devastating than production losses. Improvements in the quality adjustment provisions for cotton are needed to make it more effective.

Fifth, the administration proposal should address farm units—that is fields and/or sections. While we realize that unit coverage could impact how the subsidy is distributed, we maintain that consideration of smaller, better-defined units will improve the program and make it more effective. We strongly support unit coverage be

offered as a means to entice producers to buy up from the basic catastrophic coverage.

For crop insurance reform to be successful, credibility must be restored to the program. Abuse of the program must be minimized. FCIC recognizes this liability and is seeking ways to strengthen its review. We support effective oversight so that benefits accrue to those who deserve it.

Thank you again, Mr. Chairman, for allowing me to present testimony here today on behalf of the cotton industry.

I would be happy to answer any questions you or other members of the subcommittee might have.

[The prepared statement of Mr. Mitchell appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Mitchell.

We will turn next to Ms. Ozer.

#### **STATEMENT OF KATHERINE OZER, DIRECTOR, NATIONAL FAMILY FARM COALITION**

Ms. OZER. Thank you, Mr. Chairman.

My name is Kathy Ozer. I'm the director of the National Family Farm Coalition, which represents 39 family farm and rural advocacy organizations around the country. We were formed in 1986 to provide both a link and a voice for family farmers in the debate over Federal farm and food policy.

I have testimony in addition to mine to submit for the record from two of our members groups: Dakota Rural Action in South Dakota, and Dakota Resource Council in North Dakota. I would ask, if it is possible, to leave the record open for additional comments.

Mr. JOHNSON. Without objection.

Ms. OZER. I am testifying here today to strongly support a change in the way Federal Government prepares for and responds to disasters which strike at the livelihood of family farmers. Farmers need a farm policy that works and a disaster and/or insurance program that is both accessible and affordable.

NFFC supports the USDA proposed disaster and crop insurance program with a few changes. In particular, in response to one of your questions, we support the Federal Crop Insurance Reform Act of 1994 provision that would require catastrophic coverage for participants in any USDA farm program.

The package of coverage needs to provide at least a certain level of economic security for producers of all crops in all regions.

An issue that has come up by many of the witnesses already today is the whole issue of the funding for that program. We would raise that also as an issue in terms of whether the actual funds are an entitlement in the budget in exchange for removing the emergency off-budget nature of current agricultural disaster proposals.

If this is not the case, there is certainly the risk that the funds would not be available, which would undermine this whole system.

The other major question that has been raised by our disaster task force that has reviewed the proposal is: What happens before the catastrophic disaster coverage kicks in? Our understanding is that private crop insurance sold through crop insurance agents or ASCS would be available.

The critical question, however, is: At what price? Our concern is the price to the farmer struggling to meet cash flow and budget projections, and to the Federal Government in the form of the subsidy payments to provide the actual insurance premium.

It is in this area that many of our farm leaders who have worked on these issues for many years have come up with a possible proposal that would help farmers self-insure against some of their possible losses. It would be through an expansion or a revised version of the current farmer-owned reserve that would actually establish a level of a grain reserve that could be accessed if a certain loss level was met.

This is an issue that we have not totally fleshed out, but our sense would be that when a farmer had a certain loss level, that could be accessed. In addition, a farmer could also be enrolling in the private crop insurance program, but this would be basically at a middle level.

We would ask the subcommittee to actually look at some of the costs to the Federal Government of what the crop insurance coverage and the return in terms of farm income would be in that middle range before you hit that 50 percent loss level, but in between in sort of that 50 to 70 percent range. I think that is the area where there are the most concerns since that is the kind of level of loss that most producers are incurring with too frequent regularity.

The other concern that has been raised is: Who actually needs to be covered in this whole program both in terms of disaster coverage and the crop insurance availability? One of the issues that came up this past year and continues to be a concern is: What happens to farmers who have made a transition in their farming practices? What happens to the farmer who is now producing for a local farmers' market and has lost some of those 4 to 10 years or that length of reporting and is actually more involved in the actual marketing of their product as opposed to the wholesale marketing? How are some of those issues addressed?

Another concern relates to minority farmers who have historically been underrepresented in both access to farm credit and Federal farm programs. How do we ensure that they do have access to the types of disaster programs that we are looking at?

Another issue relates to contract growers who, in many cases, have not been adequately covered as a result of their whole contractual relationship and who actually own the livestock or the poultry as opposed to the time and the energy and the expenses that have been put into the process?

Those are some of the issues that—we want to make sure, as the group representing family farmers, that those are some of the types of farmers that, in fact, are getting adequately covered by the programs.

In my written summary I go into testimony in more detail, but one of our concerns is that there were certain constituencies in groups of farmers who did not get the kind of benefits that they needed during the existing disaster program. How do we make sure that gets corrected in the new program?

An issue raised before had to do with some of the cotton quality issues. We would say that's a major issue in terms of hay quality.



What happens in terms of the availability of feed for livestock producers who have not themselves incurred a massive loss but they are paying the price through their various other inputs that they need?

Another issue is the whole availability of information to farmers about the existing disaster programs. We would urge the Department to be much more aggressive in getting that information out both to farmers who need access to those programs and to their own employees who need to be disseminating that information and being the on-the-ground experts when there are problems and issues raised.

We appreciate the opportunity to testify today. We strongly support a comprehensive approach to both disaster and farm policy. We will work in whatever way we can to try and push for increased appropriations for this important program and work through the budget process, but we remain very concerned about shifting away from what we have now and into something else unless there is a sense that it, in fact, will solve many of the problems that we have in front of us.

Thanks for this opportunity.

[The prepared statement of Ms. Ozer and testimony of Dakota Rural Action and Dakota Resource Council appear at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

We will go next to Mr. Doyle Rahjes.

#### **STATEMENT OF DOYLE RAHJES, PRESIDENT, KANSAS FARM BUREAU, AND BOARD MEMBER, AMERICAN FARM BUREAU FEDERATION**

Mr. RAHJES. Thank you, Mr. Chairman.

I am Doyle Rahjes. I am the president of the Kansas Farm Bureau and on the board of directors of the American Farm Bureau Federation, and I am a producer from Agra Kansas.

I certainly want to thank you and the members of this subcommittee for the opportunity for us to be here today and what you have done previous to this in getting the information together for you to move forward in this very, very important area.

I would like to begin by indicating to you that we generally support this proposal as set forth in H.R. 4217. We have prefiled our statement, and I'm not going to read the statement. I'm going to make a few comments and, of course, be ready for questions if need be.

I would want to tell you that in our last annual meeting, which was held in January of this year in Fort Lauderdale—that's the American Farm Bureau Federation—we continued to affirm our position that both the disaster program and the Federal crop insurance program should be put together. I think this leads me to a comment that I would make regarding whether or not farmers are going to accept it or not.

First of all, actuarial soundness is extremely important for this program to work. I was on the Federal Crop Insurance Improvement Commission in the late 1980's, and certainly this is one of the things that came up through that commission. We still have not been able to achieve it.

But let me say that if the signal is sent by Congress to the American public—specifically, to farmers and ranchers—that this is a budget item, and that there is not going to be an outside-the-budget appropriation for disaster, the farmers will hear it. They will hear.

There is going to be some action by the Congress when a disaster occurs, and then whether there is an off-budget appropriations that will be made for disaster, and then, in fact, that it is denied, then the farmers will believe it. I think that's a point that we need to remember as we look at the success of this program which we think should be actuarially sound.

We do have a few reservations about the program that I would like to mention to you. Most of them are around the eligibility tests. We are concerned that basically they may be unnecessary.

First of all, we believe that the program should be voluntary. The reason: If it is voluntary, then you are going to have people participating in a program that they feel good about.

And as we think about the linkage that is tied to Farmers Home, Federal crop, and other price support programs, we feel that this is a type of coercion that certainly will not help the program to become actuarially sound. The participation will not be there unless absolutely forced, and we just don't believe that is in order.

Means testing is unattractive at any level. The \$2 million means test sounds big, and it is, but I would remind the committee—and many of you will remember—that the \$100,000 means test was tried in the previous farm bill, and there was a lot of difficulty with it.

I just indicate to you that it is going to create an area that people are going to be concerned about, and when they look for budget cutting and that sort of thing, that would be a place to look. So means testing certainly is not attractive.

Payment limitations are troublesome when we think about the \$100,000 limitation. Certainly that could, in the minds of some—when you look at a tremendous disaster program that comes across this country, \$100,000 may not be enough. So that could at least crack the door open for an off-budget type of appropriation, and therefore create the old problem again that participation really is not necessary in this program.

I think there are other areas that we look at—reliance on a yield as opposed to a dollar basis for pay-outs. There is no question that this can skew the program to the lesser productive acres, and we believe that if you would go on a dollar basis that this certainly would take that out of the picture and it would not be a temptation to use those under-productive acres.

Another area that we would mention, which has been brought up by the member of your committee from Florida—just as a technical observation—specialty crops certainly do need to be considered, especially as it relates to those crops which may not produce in one year, and also those crops that may produce several harvests in one year.

With that, Mr. Chairman, I would stand for questions.

[The prepared statement of Mr. Rahjes appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Rahjes.



Joining us today in lieu of Mr. Swenson is Ms. Nancy Danielson, who is a legislative analyst at the National Farmers Union.

**STATEMENT OF LELAND SWENSON, PRESIDENT, PRESENTED BY NANCY F. DANIELSON, LEGISLATIVE ANALYST, NATIONAL FARMERS UNION**

Ms. DANIELSON. Thank you, Mr. Chairman.

I don't apologize for who I am, but I am sorry that Lee Swenson couldn't be here this morning. He was hoping to be able to testify himself.

I am a lifelong member of the National Farmers Union, and I am here to tell you that we are generally very supportive of the provisions of H.R. 4217.

The testimony today will address 10 issues: Repeal of the ad hoc disaster, establishment of catastrophic coverage, linkage to farm programs, the delivery system, industry competition, assistance for uninsurable crops, actuarial soundness, budget authority, adequacy of higher levels, and the advisory committee created by this legislation.

First of all, we are generally supportive of the repeal of ad hoc disaster but, like Mr. Diedrich, we would condition that on the fact that catastrophic coverage remain at an affordable price. We also suggest, as the bill does, to keep the authority for uninsurable crops.

Second, as to the adequacy of catastrophic coverage, we like the fact that this bill allows producers to choose between using APH or using area yield. We would like to go one step further and require that both are offered. As is currently in the bill, it says the producer may choose as long as both are offered, but we would like to require that both be offered.

Like Mr. Merja, we would like to have disaster declared years excluded from APH.

We would also like to make one additional improvement. We would like the price election to be up to 100 percent of the expected market price rather than 60 percent of the expected market price. We feel that if the coverage is too low, it won't actually meet the goal of obviating the need for disaster assistance.

I guess one additional question that I had that is not in our testimony is the question as to whether or not catastrophic assistance will be available even if only one producer in a county suffers a disaster. I would hope that it would be available.

The third issue, linkage to the farm programs: You will note in the special order of business that we have attached to our testimony that our delegates at our national convention supported having it as a benefit of farm program participation, and they even went as far as to support requiring the catastrophic level. But, again, they would be supportive as long as the cost of participation is limited to the currently proposed \$50 per crop per county, with a cap of \$100 per producer per county.

Four, as to the delivery system, the question of dual delivery raises some additional issues. First of all, who will do the adjusting? Who will pay the administrative cost if the producer first obtains coverage from the farm service agency and then goes on to the private agent?

We also support waiving the administrative fee for those who sign up for coverage greater than the catastrophic level. We believe it is very important to encourage producers to sign up for a level of coverage greater than that catastrophic level.

Five, we support the provision which allows industry competition. We like the fact that insurance companies are allowed to offer up to 85 percent of APH or 95 percent of area yield. We think this more closely approaches the cost of production, and we think that's a very positive inclusion.

Six, we do support providing a permanent disaster program for uninsurable crops or crops where the catastrophic level is not available. But we think that you should require that a crop have some history on land before it can be insured. What this will do is prevent a farmer from speculating on some new crop that has never been grown on that land before, with the knowledge that they can always receive crop insurance. We believe this will add actuarial soundness to the program.

We support the goal of approaching actuarial soundness, and we believe using APH will really help out in achieving that goal.

We certainly hope that the budget authority will be granted as requested by the administration, and we would point out that would achieve savings of \$750 million up to \$1 billion over a 5-year period.

As to the adequacy of higher levels of coverage, we support allowing producers to choose up to 65, 75, and 80 percent levels of coverage, and we recommend that a premium subsidy is offered to encourage producers to choose these higher levels. I don't believe that's in the current bill, and we hope that will be added.

We like the fact that loss of yield and preventive planning is covered. We would like to add quality loss coverage, and we would also point out that separate units are important. For example, dry land wheat should not be treated the same as irrigated wheat in looking at yield coverage.

We support the addition of a Federal advisory committee, but we would like to ask that at least one-half of those people on the board be family farmers.

In summary, I'd like to say that I think this bill might be successful for the very example that our president from the Minnesota Farmers Union gave. He pointed out that even though he traditionally buys a low level of catastrophic crop insurance program, he has never been able to collect on that, even last year when he had the worst disaster ever. He thinks the fact that a program like this will provide him that coverage, he can then use his additional dollars which he would have spent on the low-level coverage to buy up.

If there are other producers in the midwest where participation is traditionally lower that have the same feeling, then I believe your will be very successful in getting the widespread participation.

[The prepared statement of Mr. Swenson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

I want to thank all the members of this panel. I think your insights are very helpful to the committee.

Let me just ask a question to those of you who may choose to respond.

All of us would like to have as much premium subsidy as possible for the buy-up, because I think we all agree that in most cases catastrophic coverage is not going to be entirely adequate.

On the other hand, there is a possibility that we may not have the money to utilize that the administration has requested. We may come in with less money than what the White House wants, what Mr. Espy wants.

If something had to give, would you recover that financial shortage by reducing the level of the catastrophic coverage and retaining a partial subsidy for the higher coverage? Or would you use the money first of all to make sure that 50 percent catastrophic coverage is, in fact, provided and pare away some of the subsidy for the buy-up?

It is a choice no one wants to have to make, but if you were confronted with that kind of choice, I wonder if any of you have any comments or if it is too awful a possibility to even consider.

Mr. MERJA. Mr. Chairman, at first glance I would ask you to keep the money in the buy-up instead of in the catastrophic coverage for the reason that people still are going to need to make management decisions, and they can choose to make those management decisions after the catastrophic coverage is there and so minimize the money in the catastrophic coverage and put the money where people are already using the crop insurance.

Ms. OZER. I would have to disagree because it seems like if the money isn't there we won't have an adequate catastrophic program, so we have to figure out what is that. If the alternative is removing the ad hoc disaster situation, we could be caught in a very precarious situation of many farmers having neither access if they have a major disaster nor having any catastrophic coverage if, in fact, the premium levels are so high.

I think we have to be clear about the base and establish the catastrophic level. That's where our farmers, in looking at this proposal, came up with this idea of some kind of grain reserve or some kind of self insurance that maybe would cost less than the premium payments.

It is something that is just a concept and we need to do a lot of work on, but I think the sense is there needs to be some different options, and we don't want to be in a position that if the buy-up insurance is too expensive it is not going to be accessible, just like the current system. But, on the other hand, you want to have something when you've got a very catastrophic situation or we'd be in very dire straits.

Ms. DANIELSON. Mr. Chairman, Farmers Union would also support keeping the money at the catastrophic level. I was also very interested this morning in the comment made by Mr. Ewing to suggest that perhaps you should allow farmers to choose using a 40 percent deductible and then getting a 40 percent payout instead of having a 50 percent deductible and getting a 60 percent payout because many people live in areas where having a 50 percent deductible means that they will never collect.

Mr. RAHJES. Mr. Chairman, I would respond like this: Let's not lose sight of the target. The target is to become actuarially sound



in this program. The balance is critical. If we use too much in the catastrophic area, then we wind up not being able in the other area to keep the balance.

As we look at the disaster program as we have seen it in the past, and as we look at the number of dollars that have been used, a critical balance has to be there. There is no question that the catastrophic program is very important to participation, but at the same time I think that our moneys can be used again by giving the producer options—and as many options as you possibly can—to allow them to place that where they want to use it.

Mr. JOHNSON. I appreciate your insights on this. Obviously, opinions differ. We are sort of talking about an abstract issue here because we don't have a dollar amount, and obviously we'd have to have the CBO number crunchers work to see what kind of menu of options we would have before us. It may be a little bit of a combination of both. It is hard to know, but I appreciate your insights on that.

I also appreciate your observations on crop quality. I am reminded a little bit of the health care debate, however, where there is no end of things that we would all like to see in the minimum level of coverage but, again, it is going to be partially budget driven. It is going to come down to how much money we have got to use.

I think those points are well taken.

Mr. Ewing, any questions or comments?

Mr. EWING. One comment to Mr. Rahjes. I know that you are from the district of our ranking minority member, Pat Roberts, and he asked me to specifically give you his best regards and his apologies for not being able to be here today for your testimony.

The other point that I would like to make—and it really isn't a question, just a point. I have raised the issue about changing or giving options in the catastrophic coverage, whether you have 50 percent coverage with 60 payout or have a 60 percent coverage and pay out at a lesser level. We are not trying to change the financial requirements, because we know the USDA has their problems with that, but they have run some figure which tell us that it may not be any more expensive to have this option.

I would like all of you to consider that and possibly submit additional information, if you choose, to the committee indicating how you feel about that, because I think there are places in the country that could be very beneficial and could be attractive to more producers.

Thank you.

Mr. JOHNSON. Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr. Chairman.

I'd like to commend our guests today on the testimony that they gave.

This is a difficult issue in trying to, as the chairman mentioned, determine quality of crops. Some of you are talking about the problems of irrigation farmers versus dry land farmers. You also have the problem of areas where you do have droughts, and also areas where you have a lot of hail. A lot of areas of the country don't have much hail. In my area we do. Some of my farmers think this

is a real bargain just from the standpoint of being able to cover their crops from hail damage.

All of you—not all of you, but most of you talked about the cost of production versus yields, concern about if we do base it on yields, how does that affect a producer's average yields. That, to me, is a real dilemma that we have got to try to get a real answer to.

I wanted to ask, first of all, Mr. Hart—in your testimony you talked about real concern about ASCS being involved in the program. You commented about how you felt like they would put this program kind of at the bottom of the list because of their work load. I would like for you to elaborate a little more on that. If we did include ASCS more actively involved in this program, what is the answer? Are we looking at additional staff, or what?

Mr. HART. Well, are these people trained, first of all, to basically sell the farmer? They come in and they sign up for the basic coverage, but are they going to be trained enough to sell them on maybe they should go talk to the insurance agent across the street about increasing their coverage? Are they going to want to take the time to do it?

Sure, maybe it is part of their job definition or job description, but how much time and effort are they going to put into it? You are going to have to train the people because they are going to have a lot of questions. If they are going to try to get the farmer to buy more coverage from the insurance agent, the farmers are going to ask that ASCS employee questions. They need to be trained enough to answer them. This is going to take more time.

One of the things I think is going to be put on the back burner—I think this program has been tried once before, and I think the ASCS tried to present an insurance program and it didn't work very well at all. The people just didn't have any interest and didn't have any incentive to sell it. It was one of those extra duties that they had to do, and they did it when they had time and they thought about it.

Mr. SARPALIUS. From an individual who is here speaking for many banks across the country, do you see this program as one that would discourage banks from giving loans or encouraging them for giving loans and protecting their investment?

Mr. HART. I think it would encourage them, because, like I said in my statement, we know that these people have the insurance, have the money in place. Personally, I feel we should go to a cost basis rather than a production basis so maybe the cash flow—they know what they have to have to come back to make their cost of production. We feel more comfortable making the loan, and I think the farmer should feel more comfortable in purchasing it. He knows he is going to get so much return. And it might encourage him to look at the program a little closer.

I'd make one other comment. Chairman Johnson asked about where we should put the money. I believe it should be left in the catastrophic program to encourage people to sign up for it. Maybe in future years you could take the money and wean it out. As more people get more religion or believe in the program, they are going to find out the disaster program is a thing in the past. As more people start utilizing the program, maybe you can change the flow of money around a little bit. But I think right now we should en-



courage as many people as we can to take the program and sign up for it.

Mr. SARPALIUS. That brings another issue—mandatory coverage. Some of you testified against that. How else are you going to have broad participation unless you have mandatory coverage?

Mr. HART. I think if a person expects something and is using the various Government programs, he should have some protection. The Government should have protections. In fact, all the farmers should protect themselves. We won't lend money to a person to buy a house unless he has house insurance. We won't lend money to a person to buy a car unless he has car insurance. If the Federal Government is going to subsidize these people in some way, the Government should have some protection and the farmers should be willing to take that protection.

Mr. SARPALIUS. Would anybody else like to comment?

Mr. MITCHELL. If I may, I reside just a little ways south of where you live, and adversity will cause people—and I'm not advocating adversity, but if you think that you want to be standing up ready to take out Federal crop insurance, that adversity hits you a year or two—I know, because I've got friends in the cotton industry that said it won't work for us. But, unfortunately, a year or two of adverse weather—I'm talking about natural disasters—and they are ready to take it out.

As I said, I'm not advocating anybody having adverse weather, but it will put people in line to buy the insurance.

Ms. OZER. We would agree that there needs to be mandatory participation. I would just say that in terms of reorganization and the whole farm services agency, we would hope that there would be the kind of training that would be clear with folks working with ASCS that we are talking about the catastrophic portion.

Part of the job may be to be clear that the other pieces are available, but it won't be the job of the ASCS employee to be promoting. It would be the job of making sure that people know that it is available. The crop insurance industry I'm sure will continue to promote its availability. But adequate training is essential.

Mr. RAHJES. If I may respond with regard to the mandatory versus voluntary. I spoke of options before and the option level being there within the program, itself, as presented.

It is pretty obvious that those who may not want to participate to begin with will be much more apt to want to participate if they can have the choice of where they want to place their money, even if it is subsidy, if they can control where the coverage and the emphasis on the coverage they want.

There is no question that the catastrophic coverage is very, very important—nobody is doubting that—but give the farmer the option where he wants to put it.

Mr. BURNS. Congressman, I would concur that mandatory participation is probably a good concept as a part of this legislation, partly because it is such a minimum cost when we are talking about \$50 per crop per county with a maximum of \$100 per producer. As a lender, I don't know of any customers that we have that would opt out of the program because of the cost.

I think it would tend to encourage broad participation, particularly in buy-up insurance that might come after the basic coverage,

which would help make it actuarially sound, which is an important part of the success of the entire program.

Mr. SARPALIUS. My time is out, but there are a lot of gray areas within this plan, but I really think we are finally, for once, beginning to get more of a consensus than I have ever seen since I have been on this committee. But there are a lot of unanswered questions like the buy-up—how much is it going to cost?—and the problems we discussed on the cost of production versus average yields.

I commend the chairman of this committee, and I am convinced that we will eventually reach a consensus.

I thank each one of you for your testimony.

Mr. JOHNSON. Just so that there is no confusion, the Chair would clarify things a bit hopefully.

As the crop insurance reform bill stands, it would not cover hail loss per se. The hail industry remains in place. But it would cover other kinds of disasters. The design of the plan is to assure every farmer of roughly the equivalent of the kind of disaster payment they now get in years that we do ad hoc disaster bills. That hadn't been said.

Mr. Peterson.

Mr. PETERSON. I came in late and I'll forego any questions. I might plow some ground that you have already plowed. I got a lot of my questions asked in Minnesota.

Thank you, Mr. Chairman.

Mr. JOHNSON. Thank you. And I thank the gentleman from Minnesota for coming down from his district to attend the field hearing we had in Representative Minge's district.

I thank the members of this panel. I think it was a very good discussion.

I think everybody would just as soon avoid mandatory anything where possible; however, in this case it is sort of good news/bad news. The bad news is it is mandatory, the good news is it is free. There probably will be more contentious issues than that that we will be dealing with.

Thank you again for your participation in this panel.

The last panel is comprised of: Mr. Michael Connealy, Rural Community Insurance Services of Anoka, Minnesota; Mr. John H. Joyce, who is chairman of the American Association of Crop Insurers and president, Rain and Hail Insurance Service, Inc., of West Des Moines, Iowa, and he is accompanied by Mr. Robert W. Post, Jr., vice chairman of American Association of Crop Insurers, and president of Dornberger/Berry & Co. of Sioux Falls, South Dakota; Mr. Robert Parkerson, president of the National Crop Insurance Services of Overland Park, Kansas; and Mr. Thomas A. Rudisill, chairman, Crop Insurance Research Bureau, Inc., of Overland Park, Kansas, and manager of crop insurance and administrative services, North Carolina Farm Bureau Mutual Insurance Company in Raleigh, North Carolina.

We welcome all of you to this subcommittee. We appreciate your patience.

Again, we will abide by the 5-minute rule to expedite things a bit, but feel free to summarize the statement or read the statement—however you are most comfortable. But we will try to abide

by that time limitation in order to—we do have members with airplane flights and so on that need to be connected with.

Your entire statements, however, are received for the record and will be shared with our entire staff and with the members of the committee.

We will proceed first with Mr. Connealy.

# **STATEMENT OF MICHAEL CONNEALY ON BEHALF OF RURAL COMMUNITY INSURANCE SERVICES, INC.**

Mr. CONNEALY. Thank you, Mr. Chairman and members of the subcommittee.

On behalf of Rural Community Insurance Services, we appreciate the opportunity to testify before the subcommittee concerning the Federal Crop Insurance Reform Act of 1994.

Rural Community Insurance Services is a wholly-owned subsidiary of Norwest Corporation, which is a bank holding company. Norwest is a principal provider of farm operating loans in rural communities, and also to businesses that support rural communities, and we consider the crop insurance program to be an essential part of the fabric of those communities.

It is our hope that a concrete and meaningful crop insurance program can be continued by Congress, regardless of the reform act underway and the budget problems that accompany it.

We do believe that the proposed reform act addresses many of the concerns that we have regarding the program, and we do thank you for the invitation and opportunity to share our thoughts.

We have submitted for the written record the 12 issues asked by the subcommittee. We won't go through those issues one by one, other than we will comment as regards the mandatory aspect of the program. We are not totally opposed to it; however, we have looked at the possibility of a waiver of some nature that could be considered to help reduce administrative costs, particularly for low leveraged producers.

We believe that a waiver may be in order in which the producer forfeits any benefits to any sort of disaster or crop insurance declaration. I guess, to use the words of Congressman Peterson from Minnesota, they take a blood oath not to accept a disaster payment.

Our additional comment specific to the reform and also the conventional crop insurance program are that of a lender. Norwest is unique in the business in that we are the second or third leading producer of crop insurance premiums in the country, and at the same time we are the second or third leading production source for operating loans. Probably across the country and certainly in many of the States—Minnesota, South Dakota, North Dakota, Nebraska, Iowa—Norwest is certainly an operating loan leader in those States, as well as new entries into Indiana, Texas, and New Mexico.

The crop insurance program is viewed as essential to the creditworthiness of many farmers, and therefore to those communities. If the conventional crop insurance program, as we know it today, were to be eliminated or significantly reduced as a source of collateral, the availability of credit would diminish immediately and the



consequences of each storm or drought would be more adversely felt in those rural communities.

We point out that this is especially true of younger farmers and high leveraged farmers. We question the role of Government in worrying about low leveraged farmers or wealth farmers, and where subsidy dollars are in question we believe that they should be directed to those that are most in need.

We throw out for statistics: In 1992, we recalculated Norwest's national loan portfolio and found roughly 775 million dollars' worth of loans which could be described as land loans or operating loans, including Farmers Home Administration guaranteed loans. These loans were limited to those made with the expectations that proceeds from the sale of crops was going to repay these loans plus the interest.

Norwest utilizes a risk rating method which scores the loan from a high of one, which would be best, to a low of seven. Operators that are rated as a one, a two, or a three would likely not be adversely affected by the loss of a meaningful crop insurance program. These loans amounted to \$220 million, or roughly 28 percent of the total.

Loans rated as a five, a six, or a seven would most likely be dropped from the portfolio. These would include Farmers Home guaranteed loans, which amounted to \$157 million of the total, or 20 percent.

The critical areas—those rated as four—many of these also require crop insurance. They would be affected by either a higher interest rate, reduced operating line, and in many cases no loan at all. The impact on these 50-some percent would be significant and costly to the borrower, as well as to the rural communities in which they live.

Norwest's main interest in the crop insurance program has always been as an agricultural lender, and our interest in the reform is also as a lender. We do additionally have strong interest in the reform program that benefits the risk bearers and the agents, and we are also interested in seeing farmers with good loss histories rewarded by lower premiums and/or higher rates of coverage.

Norwest—and we believe other agricultural lenders—already requires crop insurance to the vast majority of those who have the financial need. If there were a choice in the amount of reform, or preference would be to keep the conventional program intact—and also enhanced, since farmers are already participating in that area—before pushing ahead with a great deal of experimental reform.

We are especially cautious of reform aimed at the catastrophic level of coverage because we see a limited or no amount of additional operating loans coming into the market supported by 50 percent coverage, 60 percent price selection. That amount of coverage would not entice us to loan money where we were already questioning the loan. It would also not increase the line on those that we were lending money to. We don't see it as a viable backstop to an operating loan.

I think with that we'll conclude our remarks. We have submitted a written statement for the written record and would be happy to take questions at the end of the panel discussion.

[The prepared statement of Mr. Connealy appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Connealy.

We'll move next to Mr. Joyce.

**STATEMENT OF JOHN H. JOYCE, CHAIRMAN, AMERICAN ASSOCIATION OF CROP INSURERS, ACCOMPANIED BY ROBERT W. POST, JR., VICE CHAIRMAN**

Mr. JOYCE. Thank you, Mr. Chairman and members of the subcommittee for the opportunity to present our views on H.R. 4217, the Federal Crop Insurance Act of 1994. These summary views are expressed on behalf of the American Association of Crop Insurers, a voluntary trade membership association of the private crop insurance industry. Our members represent approximately 60 percent of the multiple peril premium written in the United States.

We find ourselves presented with perhaps the greatest opportunity to improve the crop insurance program. At no time have we seen such a consensus for reform or apparent willingness to merge the ad hoc disaster payment approach into an improved crop insurance program.

No matter what legislation is passed by Congress, a reformed crop insurance program can only reach its objective if there is a complete new mindset on all facets of the program on the part of USDA, FCIC, FSA, the companies, the farmers, and Congress. We must focus on a greatly simplified program, both for catastrophic coverage and additional coverages that will be available.

Overall, we believe that at least a one-third reduction in administrative requirements to the crop insurance program could be achieved without adversely affecting the program. At the same time, we are working cooperatively with the administration in support of this program, we have been presented with a draft reinsurance agreement that adds many new costly programs that we cannot see any benefit to either the farmer or to anyone in the program.

These requirements would amount to almost some additional unfunded mandates, which I think this committee and Congress has heard many times before. Unless USDA, FCIC, and the industry are willing to work on completely reevaluating the need and existence of all current administrative burdens, neither the current program nor a reformed program can be delivered effectively.

The objective of any crop insurance program must be the provision of incentives and opportunities for farmers that permit them to adequately and affordably manage their production risk. In achieving that chief objective, universal availability of a catastrophic coverage at little or no charge will not be sufficient.

Only through significant involvement of private industry can we expect to deliver crop insurance and to add the additional coverages necessary to meet the needs. The administration's reform proposal deserves positive consideration by budget, appropriations, and agricultural committees. However, in order to help the program achieve its maximum effectiveness we feel that a number of refinements need to be made. Three specific areas of refinement are necessary: Program simplification, program delivery, and reasonable return on private capital invested.



It is vitally important that whatever simplification measures are adopted for the catastrophic level should also flow through the rest of the program. Otherwise, a major disincentive for participation at higher levels of coverage will be created.

The simplification process would start by requesting this committee to look at the areas of the buy-up protection from the 50/60 and the integration from that to whatever the maximum levels of protection offered are. Maybe one suggestion might be to buy up to—the first limited buy-up would be to a 50/100. That might be one.

We also believe very strongly that this catastrophic protection safety net cannot have any holes in it such as could be created by the nonstandard classification system.

One of the most frequent comments about the crop insurance program is that it doesn't provide enough coverage. While we have heard much discussion and the legislation would allow for many higher levels of coverage, we would also suggest that there are other options such as disappearing deductibles that could be offered by the program at a much reduced price.

Given the proper incentives, reasonable opportunities for return on capital throughout the program, and appropriate Government backing, USDA and farmers would be amazed at the explosion of crop insurance products that could be developed by the private sector to fill the holes in these programs. We applaud the FCIC for approving one of these programs to date and look forward to more.

As we contemplate adding approximately 1.4 million participants to the program, the streamlining and reduction of administrative burden for FCIC, the companies, the agents, and particularly the farmer participants becomes even more important. We believe there should be—again, we say there could be a one-third reduction of administrative requirements without adversely affecting the program.

In the area of program delivery, we are in strong support of the administration's proposed reliance on the private sector. This maximizes the impact of limited Federal dollars and recognizes the preferences and convenience of farmers in obtaining their crop insurance coverage at the same place as they obtain the rest of their farm insurance.

We also believe that the catastrophic protection alone is not sufficient to save the farm for most borrowers when disaster strikes. We strongly believe that professional counselling to quantify risks and match them with the right insurance coverage is indispensable for this program to succeed.

At a minimum, we strongly suggest that farmers' risk management needs could best be met if farmers are required to visit a private agent prior to being able to obtain a catastrophic policy at the USDA office.

The last comment would be relative to the cost of involvement of a duplicate delivery system in addition to crop insurance. We would ask the committee to strongly consider that option only on an as-needed basis and allow the funding that might be used in this area to be added to program benefits.

We also believe that the necessity for administrative expense reimbursement to handle this program is critical. While many of the suggestions as to the change in coverage attachment points, such

as one that was raised here this morning several times of going to 60/40 rather than 50/60—I think we have to balance out the need for coverage and the need for options with the simplicity in the costing necessary so that every farmer can say that they understand the program. This goes back to the complexity issue.

There is also strong justification for some type of expense reimbursement supplements in years like 1995 if this program is passed when the industry tries to undertake a significant retooling of all the operations to accommodate a reform program.

We would also suggest to this committee that FCIC and Government remember that you have some strong private partners more than willing to go to bat; however, we must have a reasonable return on capital to continue to expand these programs.

In conclusion, we have a unique opportunity this year. We believe the administration has set before Congress a framework for reform that will work if refined and implemented in a manner which capitalizes on the existing public/private partnership. We cannot emphasize strongly enough that the reform program will achieve its objectives if everyone involved approaches with a new mindset.

Private sector will deliver day in and day out, and we look forward to working with you, Mr. Chairman, and this committee and USDA for whatever changes may be necessary

Thank you.

[The prepared statement of Mr. Joyce appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Joyce.

Mr. Parkerson.

#### **STATEMENT OF ROBERT PARKERSON, PRESIDENT, NATIONAL CROP INSURANCE SERVICES**

Mr. PARKERSON. Thank you, Mr. Chairman, for our opportunity to appear here today on behalf of NCIS, which is National Crop Insurance Services.

NCIS has been serving the crop insurance industry in one form or another since 1915. Our organization continually evolves around the needs of the crop insurers. We were organized for primarily three reasons: One, to gather and analyze crop insurance statistics so that we could create the appropriate premium, and that could be developed to be delivered to the consumer; also, to develop a standard policy so that both the consumer and the agent understand the product that is being sold; and to deliver loss of judgment procedures that are acceptable to all combined.

I'll make this brief, since I see the writing on the wall—or the old clock. And we still have other people to hear from.

While we may not all agree on every detail of the proposal, the industry will work to improve the package, keeping an eye on the actuarial soundness and the underwriting and the delivery system.

We believe that most all segments—the producers, the commodity groups, and the insurance industry—stand strongly behind this action.

We feel that the administration's approach reflects sound budget discipline for all, to include the taxpayer, along with sound risk management for the American farmer.

The industry has made a great deal of commitment to this program over the last 14 years and would like to remain, I believe, a key part of this program. However, should the social aspects overtake sound business practice and sound insurance principles, then I think the industry would have to look at some of this proposal.

We have submitted a statement in writing, Mr. Chairman, and I will leave it at that.

[The prepared statement of Mr. Parkerson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Parkerson.

Mr. Rudisill.

#### **STATEMENT OF THOMAS A. RUDISILL, CHAIRMAN, CROP INSURANCE RESEARCH BUREAU, INC.**

Mr. RUDISILL. Thank you, Mr. Chairman.

I come as chairman of the Crop Insurance Research Bureau, whose members vary from large to small companies, some MPCIC writers, and some who are not, but write private crop insurance coverages and are very interested in the program.

As our written testimony indicates, the reform program is a concept, and we think it meets most needs for disaster protection, combined with risk management for the farmer.

To function satisfactorily, some fine tuning will be necessary and the areas of this need are currently being addressed by FCIC and industry people, along with others, and we feel like they are working diligently to that end.

I'll mention just a very few of the concerns that we have that were not included in my written testimony.

One, the bill may be a little bit specific in some areas where it could be more effectively left to some regulatory handling and the flexibility that would go with that. One example would be the APH formula. Perhaps that would be best left out of the bill and handled administratively.

We feel competition between companies should be based on service rather than on price. The provision allowing for certain companies to save on administrative costs and pass that on in the form of price competition may be counter-productive in two ways: Large companies with an economy of scale might be able to use this to take us toward more monopolistic production of this business at a time when we have already reduced from some 50 companies writing this business down to 15 or less. We feel basically that competition—a more advisable manner would be to establish a reasonable amount of allowance for administrative cost to provide prompt, accurate, efficient service and let the service be the competition.

We feel that naming of specific perils should remain in the act, as opposed to the current provision which would not allow the farmer to know exactly what he was insuring against. We feel named and specific perils are important.

We also have some concerns about the 85 percent level of coverage which others favor. The reason for this is, actuarial soundness being one of the primary objectives of the program, at this time the 50 percent level of coverage is producing a 100 percent loss ratio, the 65 percent considerably higher, and the 75 percent level is a 175 percent loss ratio. So to move on up to an 85 or 95



percent level would exacerbate the problem with actuarial soundness.

In conclusion, we think some adjustments could be made, are necessary, but we favor the program as presented and we compliment each of the other people and this committee especially for the opportunity to state our views.

[The prepared statement of Mr. Rudisill appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. I appreciate your observations about actuarial soundness. Obviously, there would be some subsidy required. We want to encourage that buy-up to the degree that we can, but I think it is a good point that left strictly to premium levels, it could create an enormous premium burden if there is not some fairly substantial subsidy for that buy-up encouragement.

Let me ask you just briefly here—and I apologize. We've got a vote pending, and I'm going to have to excuse myself quickly, and I hate to have you stay here just for a few more questions.

The purpose of the administration is that we need a dual delivery system because there simply are not enough agents across the country—at least in some portions of the country—to handle a sign-up that currently is around 30 percent and they anticipate being around 80 percent.

Do you basically agree with that—that there really is no way around, at least initially, a dual delivery system, at least until the private insurance system matures in some regions of the country? And if there is a dual delivery system, what level of training do you think realistically is going to be important for ASCS personnel? Anybody on the panel may take a shot at that.

Mr. CONNEALY. As far as the administration's position that agents don't exist in certain areas, we are not aware of where those areas are. That was the dialog we had with them. They wanted to insure that everybody was visited with about the program. We don't know of a specific area that local agents couldn't be appointed and trained if there was a monetary reason for them to be.

We are a national writer. In 40-some States we have agents appointed and servicing clients. We think it was more of a cost basis that for the free level of coverage the agent wouldn't be interested in providing the administrative work, and that the proposed FSA would be a backstop.

Our estimate on the cost of that is that it is considerably more than the value that is going to be received by the Government for appointing those FSA's.

We had a pilot project, I believe, in 1990 on training ASCS offices, and several million dollars were spent training ASCS people to sell the policies, and I believe they sold fewer than a handful. So it is questionable.

By the same token, the way the administration's proposal reimburses expenses at the catastrophic level, by and large the private sector, including the agent force, would not support it because there isn't any money to pay their cost.

Mr. JOHNSON. Any very brief follow-up on that?

Mr. JOYCE. I would concur with Mr. Connealy and would address the issue of training. It would be our suggestion—and I believe you would find from the Big I and the PIA agent associations and many

other professional associations that if you are going to keep the program on an equal keel where it is understandable, people know what they are buying, the service to be expected, that the same licensing-training requirements that go into allowing an agent, both at the State level to be certified to sell and to meet the FCIC requirements which are in addition to their State licensing, would be absolutely mandatory, along with equal administration of the program under all terms simply to keep it from being confusing.

Mr. POST. Just one more thing, Congressman, on the availability. I do not believe the farmer has any difficulty, even in the far reaches of this country, in finding an insurance agent for his farm vehicles and his equipment, and I think the same thing will occur on crop insurance.

Mr. JOHNSON. I want to thank the members of the panel for your contributions here. The full written statements are received. I think it is very helpful.

I have a vote on the crime bill. If I am not over there in 3 minutes I will be recorded as being in favor of crack cocaine, and so I am going to have to excuse myself to record that vote.

Thank you very much for your attendance here.

With that, this subcommittee is adjourned.

[Whereupon, at 12:53 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[Material submitted for inclusion in the record follows:]



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# POSITION STATEMENT

Testimony of  
Bob Odom, Commissioner  
Louisiana Department of Agriculture and Forestry  
on behalf of the  
National Association of State Departments of Agriculture  
before the  
House Agriculture Subcommittee on  
Environment, Credit and Rural Development  
U.S. House of Representatives  
April 21, 1994

*re: Federal Crop Insurance Reform Act of 1994*

Good morning Mr. Chairman, members of the Subcommittee. I am Bob Odom, Commissioner of the Louisiana Department of Agriculture and Forestry. I also serve as President of the National Association of State Departments of Agriculture (NASDA). I appreciate the opportunity to appear before you today and to offer my comments on the Administration's proposed "Federal Crop Insurance Reform Act of 1994." My comments not only reflect my own position but also the position taken by NASDA at their annual meeting held September 13, 1993, in Waterville Valley, New Hampshire.

NASDA is the nonprofit association of public officials representing the Commissioners, Secretaries and Directors of Agriculture in the fifty states and the territories of American Samoa, Guam, Puerto Rico, and the Virgin Islands.

First let me say that I support the efforts of the Administration to reform the federal crop insurance and ad hoc disaster programs and have spoken to the Administration on numerous occasions about my position on the need for change from what we have to offer to farmers today. The proposal before you addresses those concerns.

Commercial, mainstream farmers in my state and other states, for the most part, are not supporters of the current federal crop insurance program and have signalled a desire for fundamental reform of the program. The current program does not meet their needs and the premiums are excessive for the coverage provided. The current program provides opportunities for widely known abuses by farmers who, year after year, farm just to collect insurance. Many farmers in my state have been indicted and convicted for various abuses under the current program and investigations are continuing. In fact, the loss ratio in Louisiana is higher than the

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SECRETARIES AND DIRECTORS OF AGRICULTURE IN THE FIFTY STATES AND FOUR TERRITORIES.

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national average for the last ten years. We need a crop insurance program designed for the mainstream, low risk commercial farmer who is interested in financial protection in case of a loss due to drought, flood or natural disaster, and we need a program the farmer can afford. The proposed "Federal Crop Insurance Reform Act of 1994" provides the framework to meet this need and also provides the positive changes needed if the federal crop insurance program is to survive.

Additionally, the proposal eliminates the uncertainty of farmers receiving assistance from ad hoc disaster programs by providing catastrophic risk protection as part of the crop insurance program. Providing disaster assistance on an ad hoc basis, as we do today, tends to discourage participation in the crop insurance program. The possibility that a farmer will receive some type of assistance, even if he does nothing to protect himself from loss, sends a very wrong signal that crop insurance is an unnecessary expense. It is widely accepted that we cannot continue to have both programs because of cost and because of inequities in the assistance provided through the current disaster program. Farmers prefer a comprehensive crop insurance program that will help meet their financial security needs on an individual basis rather than the uncertainty of ad hoc disaster programs dependent upon wide area or multi-state disasters and congressional appropriation of funds. I support this part of the proposal which provides a permanent basic level of support at nominal cost to the farmer, yet costs no more than has been the average cost to the taxpayer over the last ten years or so.

Specifically, as it relates to the proposal, I support the following concepts that have been included:

1. A comprehensive federal crop insurance program must meet the needs of mainstream, low risk producers by offering them financial security in case of drought, flood or natural disaster and must have incentives to attract these producers into the program to ensure widespread participation. For example, premium discounts should be offered to those farmers with good experience. Conversely, farmers who consistently have losses should be placed in a "High Risk Pool" and taken out of the actuarial data base used to calculate premiums. Additionally, significant premium discounts for higher levels of coverage are critical in order to attract participation at those higher, "buy up" levels of coverage which are needed to make the program more fiscally sound. It is my understanding that these incentives will be included in this program.
2. Insurance coverage should be based on the "Actual Production History" of individual farmers based on proven yields, proven through the Farm Service Centers, rather than to the insurance company through its private agents. This will reduce any attempt to assign production history to a farm on which the production did not occur.
3. Farmers should have the option of buying the level of coverage they determine best meets their needs on an individual basis. Under the proposal, farmers may purchase additional insurance coverage providing higher yield or price protection levels above the basic catastrophic risk protection, for an additional premium. The FCIC has stated that farmers will have more flexibility on yield and price

elections and unit structure than is currently available, with the assurance that the program will be more farmer friendly, with new products and flexibility. Incentives are provided through premium discounts at the higher levels to encourage greater participation, which, I feel, is extremely important to the success of the program. Premiums for the "buy up" coverages must be reasonable and affordable for the risk involved in order to enlist the low risk farmers into the program.

4. Farmer records should be identified by Farm Serial Number and Social Security Number.
5. Ad hoc disaster assistance for all crops eligible for crop insurance should be eliminated. I support the catastrophic risk protection program offered in the proposal at 50 percent loss in yield, indemnified at 60 percent of the expected market price. I do not feel that a lower base level of coverage will meet the need of farmers who choose not to purchase buy-up levels of coverage. A base level of coverage that is too low will not provide the farmer with sufficient financial coverage to see him through a crop loss and will only encourage calls for ad hoc disaster assistance to make up the difference. Then we'll find ourselves right back where we are today.
6. I also support the noninsured assistance program that will cover those crops for which crop insurance currently is not offered. Replacing the ad hoc disaster program, with all its uncertainties, with a catastrophic risk protection program and a noninsured assistance program with certainty of protection is critical to this proposal. When both programs are offered or available to farmers who produce crops eligible for crop insurance, i.e., federal crop insurance and ad hoc disaster, a conflict exists which creates uncertainty and provides a disincentive for low risk producers to participate in the crop insurance program, thereby weakening the whole program. This lack of participation creates a higher loss ratio to premiums earned, creating the need to increase rates which further aggravates the participation problem. Combining these two programs into one eliminates the uncertainty and meets the need of farmers, particularly in their financial planning and banking relationships.

Mr. Chairman, thank you for the opportunity to participate in this very important hearing today and allowing me to express NASDA's support for the Administration's proposed "Federal Crop Insurance Reform Act of 1994." The current program is not serving the needs of mainstream, commercial farmers and a total reforming of the program is needed. Thank you.

LARRY DIEDRICH, PRESIDENT OF THE  
AMERICAN SOYBEAN ASSOCIATION

COMMENTS BEFORE THE HOUSE AGRICULTURE  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT AND RURAL DEVELOPMENT

APRIL 21, 1994

Good Morning. I am Larry Diedrich, a soybean, corn and hog producer from Elkton, South Dakota, and currently serve as President of the American Soybean Association. ASA appreciates the opportunity to comment today on the federal crop insurance program and to propose improvements in the program.

Soybean producers traditionally have not participated in the current crop insurance program. Many have found it not worth purchasing. There has also been a history of abuse in some of our producing areas, causing "good" farmers to avoid participation on the basis that the "bad apples" have spoiled the program for everyone. However, record losses resulting from drastic weather patterns coupled with improvements in the program in recent years changed the attitude of soybean producers. Many are reconsidering the option of crop insurance.

My brother and I are among these new participants. For the first time, we are insuring our soybeans and corn. We have found several improvements in the program, including late and prevented planting coverage for soybeans. And with our good records we are able to utilize APH for yields.

However, I would recommend changing the current policy for drilled soybeans. It currently costs 25% more to cover drilled soybeans as opposed to conventional row-planted soybeans, even though drilled soybeans produce higher yields. Many producers in our region plant with a drill because of our no-till practice. We should not be penalized for updating and improving our efficiency.

Soybean producers as well as other farmers need risk management tools to provide income security and stability. The Federal crop insurance program could and should be a useful means for doing just that. The Administration's reform proposal is a step in the right direction. Producers do need protection from catastrophic disasters. Under current budget constraints, ad hoc federal disaster assistance will become harder and harder to count on.

The Administration's proposal guarantees basic coverage for catastrophic disasters to all producers at a minimum cost. It also gives the farmer's lenders assurance of guaranteed protection against extreme disasters. Currently, lending institutions do not consider the possibility of federal disaster assistance as true security for their investment.

The Administration's catastrophic plan, in itself, does not offer complete risk management. We must improve the current crop

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insurance program to accomplish this. It is my understanding the Administration's proposal would continue to offer the options of additional coverage at the 65 percent and 75 percent levels at slightly below current cost. Many of our members would favor adding an option of 85 percent coverage. In addition, all agree that yields should be based on actual production history.

Test counties in 24 soybean producing states now offer the Group Risk Plan. Although participation has not been great, and it may be too early to measure its success, most soybean producers are skeptical of the "one fits all" approach of this plan. For example, one farmer or several in one part of a large county may suffer huge losses because of a hail storm or flooding. The rest of the county may not have the same conditions and the county would not qualify for crop insurance pay-out. In this instance, single producers or small groups of producers could be left without coverage even though their individual losses were great.

Views and concerns regarding other provisions in the Administration's reform package vary by region and even by producer. However, I would like to mention three of special significance to our membership:

Delivery: Opinions differ on the preferred choice of delivery for crop insurance. Mr. Chairman, as you probably know, most producers in my region would prefer that private companies handle crop insurance. However, in the South where there have been problems with some agents or companies, many producers feel ASCS or the proposed Farm Service Agency should manage all insurance. My hope would be that, regardless of who offers the insurance, it be consistent and that handlers be responsible and accountable for policies.

Linkage to Farm Programs: Mr. Chairman, I am certain you and most of the Committee would agree that farmers are independent. We just do not like mandates, of any kind. Although, the proposed fee for catastrophic coverage is nominal for most producers, we fear additional requirements could be added down the road. For instance, would a cap be set by law on this payment or could it increase if costs are not controlled? Would it set a precedent for additional requirements? We already have linkage with our conservation compliance plans, and we are hearing of other possible requirements under environmental proposals. Are we making participation in farm programs less and less attractive? These questions need to be asked, and answered.

Price Election: Many of our members, particularly in the South, are not satisfied with the current pricing formula system. They favor a price selection more reflective of local prices. For example, if the highest price selection is \$6.00 per bushel for soybeans, that is a fair price for me in South Dakota. However, \$6.00 is not considered fair by my friends in Louisiana. They need



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\$6.50 to cover their higher input costs. The price election offered should meet the needs of different producing areas. Mr. Chairman, I appreciate the opportunity to be here today and to express some of the views and concerns of U.S. soybean producers regarding the Federal crop insurance program. I do not envy the Committee's challenge as you tackle the growing need to improve our system and wean producers from ad hoc disaster assistance. I would be happy to provide additional information on other aspects of the proposal or the current crop insurance program.

Thank you very much.

## STATEMENT OF THE AMERICAN BANKERS ASSOCIATION

Mr. Chairman and Members of the Subcommittee, I am pleased to be here on behalf of the American Bankers Association (ABA) to participate in this hearing regarding HR 4217, the "Federal Crop Insurance Reform Act of 1994." My name is Phil Burns, president of the Farmers and Merchants National Bank in West Point, Nebraska located about 50 miles northwest of Omaha. I currently serve on the American Bankers Association's Agricultural Bankers Executive Committee. My bank has \$65 million in assets and a \$50 million loan portfolio, of which \$35 million is in agricultural loans. Crops in our service area include corn, beans and alfalfa. Like many other banks across the nation, we own a full-service insurance agency, which we bought several years ago. However, we have been selling crop insurance for at least 10 years, even before the insurance agency was purchased.

As many of you know, the American Bankers Association is the national trade and professional association for America's commercial banks, from the smallest to the largest. ABA's members represent about 90 percent of the industry's total assets. Approximately 94 percent of ABA's members are community banks with assets of less than \$500 million. Over half of ABA's 12,000 members have important agricultural concerns. It is good being here today to make a brief statement and answer any questions you may have.

To begin, the banking industry would like to commend Chairman Johnson, Congressman Combest, and the entire Subcommittee for looking at ways in which we can effectively address crop insurance and disaster assistance issues. Further, America's small and large banks support adequately-funded crop insurance reform at the Federal level. Your interest in improving the crop insurance program by providing reliable catastrophic coverage on the basis of individual farmers' needs and reducing unreliable ad hoc agricultural disaster programs is a good move for our nation's farmers and the rural communities about which we are all concerned. An emphasis on crop insurance sales through the private sector wherever possible is also a step in the right direction.

Statement of the American Bankers Association (page 2)  
HR 4217, "the Federal Crop Insurance Reform Act of 1994"  
Thursday, April 21, 1994

Banks across the country are primarily concerned about the availability of crop insurance which can be consistently and efficiently used as collateral. We know that dependable crop insurance can, and frequently does, mean the difference in whether banks are able to approve operating loans and other types of credit for farmers struggling to stay ahead in high-risk situations and in challenging agricultural markets.

Like many other banks, our bank is an active participant in Farmers Home Administration (FmHA) guaranteed lending programs. FmHA requires the purchase of crop insurance before loans can be processed. We join other banks across the country in looking for ways to help beginning farmers and ranchers in particular who are often high-risk borrowers. Adequate crop insurance coverage helps us to continue serving these and other customers.

Mr. Chairman and members of this Subcommittee, commercial banks join you in looking for ways in which cost-effective and reliable types of crop insurance can be made available at reasonable prices. Crop insurance is one of the government-assisted programs utilized by commercial banks to effectively serve rural economies. The banking industry is interested in working with you to consider reasonable ways in which we can continue meeting the various needs of all rural communities.

Mr. Chairman, in closing, America's bankers are interested in working with you and members of this Subcommittee to advance an adequately-funded and reliable crop insurance program which can meet the various needs of the farmers we serve. Thank you for this opportunity to express the concerns of small and large banks across our nation. Attached to my printed statement are specific responses to your questions regarding HR 4217.

(Attachment follows:)

Statement of the American Bankers Association (page 3)  
Thursday, April 21, 1994

**Responses to specific questions concerning  
HR 4217, "the Federal Crop Insurance Reform Act of 1994"**

- o The American Bankers Association supports the availability of reliable crop insurance. Crop insurance can make a positive difference in whether marginal borrowers can get operating loans;
- o Regarding the \$50 catastrophic coverage processing fee not to exceed \$100 per grower per county, most bankers believe it would be affordable to all producers. Simplification is the key;
- o It is a good idea to require producers to obtain at least catastrophic coverage in order to be eligible to participate in price support and loan programs. This provision is necessary if Congress has any hope of moving away from ad hoc disaster payments.
- o The banking industry commends your emphasis on developing a dual delivery system in which catastrophic coverage can be widely available from both the private sector and USDA service centers. Your emphasis on the availability of additional coverage being available only through the private sector is a step in the right direction;
- o The members of ABA believe that utilization of actual production history over multiple years to establish necessary coverage level(s) is the correct approach;
- o Producers should be required to insure all cropland;
- o Some farmers, especially those who are just getting started, may be highly leveraged. We encourage you to keep in mind that more than 75 percent coverage may be necessary in some cases. Producers should have opportunities to purchase supplemental products;
- o Farmers who grow non-insurable crops need special coverage prior to planting season;
- o ABA encourages the FCIC to make broader use of their authority to back private sector initiatives like "market value protection," which ties insurance to market prices and provides more protection to growers who pre-sell or hedge crops during growing seasons.

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Testimony of

**James F. Hart**  
**Miller, South Dakota**

on behalf of the

**Independent Bankers Association of America (IBAA)**

before the

**House Agriculture Committee**  
**Subcommittee on Environment, Credit and Rural Development**

on

**H.R. 4217**  
**The Federal Crop Insurance Reform Act of 1994****Washington, D.C.**  
**April 21, 1994**

Mr. Chairman, Members of the Subcommittee, my name is James F. Hart, and I am president and CEO of the Hand County State Bank in Miller, South, Dakota. I'm pleased to be here today to testify on the Administration's crop insurance reform proposal on behalf of the Independent Bankers Association of America (IBAA). I serve on IBAA's Agriculture-Rural America Committee, which develops policy for IBAA's 6,000 member bankers on agriculture, trade, the environment, and rural development issues. IBAA is the only national trade association that exclusively represents the views of our nation's community bankers.

Mr. Chairman, let me begin my testimony today by congratulating you on your selection as chairman of the Subcommittee on Environment, Credit and Rural Development. All three of these subject areas -- the environment, credit and rural development -- are critical to the future of our state of South Dakota. So from a personal and parochial standpoint, "we've got you right where we want you."

Let me also thank you, Mr. Chairman, for making crop insurance reform one of your earliest priorities on this subcommittee, and for scheduling this hearing today. Federal crop insurance has been the source of considerable controversy ever since the Crop Insurance Reform Act of 1980 broadened the scope of the program in an effort to achieve universal coverage and break the malignant cycle of annual disaster programs. So the task of reforming the program is certainly not an easy one, and we are grateful to you for taking the initiative to move the process forward.



### IBAA Supports Crop Insurance Reform

Mr. Chairman, 45 percent of IBAA's member bankers are agricultural bankers according to the USDA definition. Equally important, a full 75 percent of IBAA banks are located in towns of 10,000 people or less. So it would not be much of an exaggeration to say that the great majority of IBAA bankers are agriculture-dependent. That is why we have taken such an interest in the Administration's crop insurance reform proposal, and that is why IBAA has worked with the Administration and the crop insurance industry to come up with a program that we think will work.

In February, delegates to IBAA's national convention adopted the following resolution:

*Crop Insurance and Disaster Relief. Many IBAA agricultural bankers rely on federally-subsidized Multiple-Peril Crop Insurance (MPCI) to protect crops used as collateral on operating loans. Many farmers rely on crop insurance to help reduce risk and backstop marketing programs, such as forward contracting and other price discovery mechanisms. However, it has become apparent that we can no longer afford to support a subsidized crop insurance program and provide annual ad-hoc disaster payments as well.*

*IBAA supports reform efforts aimed at reducing reliance on disaster aid by providing all growers of program crops with a basic level of crop insurance coverage. To facilitate "buying-up" with add-on MPCI policies, IBAA supports maintaining the private sector delivery system in lieu of converting to a government sales force. And we believe consideration should be given to modifying the program from a "yield protection program" to an "income protection program" to make it more predictable in managing cash flow and easier for farmers to understand.*

### Bankers Use Crop Insurance

As the resolution states, crop insurance is important to agricultural bankers because many of us use it to protect collateral on operating loans. To put it very simply, we would rather lend on a contract than a promise. A crop insurance policy is an effective and reliable backstop for ag loans; ad hoc disaster payments, which may or may not be there when needed, is not.

Several years ago, IBAA conducted a study of leadership bankers to determine whether or not they used crop insurance. While the survey was admittedly scientifically flawed, the results were nonetheless revealing. More than seventy percent of the bankers surveyed either required or strongly encouraged their farm loan borrowers to carry crop insurance. So this program is nearly as important to lenders as it is to farmers and ranchers.

### Proposal Fundamentally Sound

Is the reform proposal that is on the table perfect? Not by any means. Does IBAA

support it? One-hundred percent!

Our position on the Administration's crop insurance reform proposal is analogous to our position on their proposed CRA regulations. The new CRA regulations are far from perfect. But the fundamental concept embodied in the regulations, to streamline the examination process for community banks by creating a two-tiered system, is so sound, that it should not be jeopardized by quibbling about details.

Similarly, the underlying concept in the Administration's crop insurance reform proposal, that is to combine disaster relief and crop insurance to form one catastrophic protection program for all farmers, is such an improvement over the existing system that it should not be jeopardized by our desire to make it perfect.

### Farm Subsidies In Decline

Equally important, Mr. Chairman, is the fact that in all likelihood, direct government farm subsidies will disappear or decline substantially. At last year's Agricultural Outlook Conference, Secretary of Agriculture Mike Espy said:

*"I have seen the handwriting on the wall. U.S. budget support to agriculture will continue to decline. We can scream, we can curse, we can lambaste, and sometimes even cause some delays in the inevitable. But the fact is that U.S. budget support for agriculture will continue to decline."*

This was never more evident than during last year's appropriations process when two very popular and traditional farm programs -- the wool and mohair program, and the honey program -- were abolished. What is next? Tobacco, peanuts, cotton, rice? It's anybody's guess.

With this prospect being laid directly on the table, it becomes even more imperative for farmers and ranchers to begin to manage their farm risk more prudently. Uncle Sam won't be there forever. And the Administration's crop insurance reform proposal is an idea whose time has come, and which has come at the right time. America's producers must take hold of their own destiny, and this proposal will give them that opportunity.

Having said that, Mr. Chairman, let me now address several features of the bill in more detail, and make some recommendations for making the package an even more effective risk management program for our nation's agricultural community.

### Repeal Disaster Authority

1. First of all, the authority for ad hoc disaster programs must be repealed. Without this, no reform package will work. It's that simple.

Contrary to popular belief, the Crop Insurance Reform Act of 1980 created a reasonable framework for a nationwide risk management program that would provide

virtually universal protection at affordable prices. But the program never reached its full potential. Participation never achieved expected penetration, prices never came down to affordable levels, and the goal of actuarial soundness was a pipe dream. Why? One fundamental reason called ad hoc disaster payments. So long as farmers and ranchers knew that if a natural disaster struck, they could reasonably count on the Federal Government to bail them out, there was no reason for them to lay out their hard earned cash to purchase crop insurance. And to be very honest, who could blame them.

The fact of the matter is that over the last decade, there were two things you could count on every year. One, there would be a natural disaster somewhere in the country; and two, Congress would pass an ad hoc disaster bill. And ad hoc disaster assistance has proven to be the costliest and least efficient way to keep farmers in business.

Last year alone, America's farmers and ranchers received more than \$2 billion in emergency disaster assistance. Now you might say that with the Midwest floods, the Southeast droughts, the California fires, etc., that was an aberration. And you would be right. But over the last ten years, ad hoc disaster payments have averaged something like \$1.6 billion a year. That's nearly double what the government spent on crop insurance. And that's not an aberration. And it did nothing to help build farmer discipline for risk aversion in their farm plans.

Mr. Chairman, if Congress passes every word of this crop insurance reform proposal, but fails to terminate the authority for ad hoc disaster programs, the reform proposal will not work. There will be no incentive for farmers to self-protect, and the vicious cycle of annual ad hoc relief programs will continue.

#### **Cross Compliance Also Key**

2. Similarly, we strongly support the cross-compliance feature of the proposal, and feel that this, too, is a key to the program's success.

You cannot go out and buy a house today without first buying fire insurance. You can't drive a car off the lot until you have auto insurance. And the reason is simple. The mortgage banker and the auto dealer want to protect their investment.

The same should hold true for the Federal Government. If the Federal Government invests in a farmer or rancher through subsidized loans, deficiency payments, CRP, or anything else, the Government has a right to protect that investment by requiring the producer to carry crop insurance. And protecting that investment is not only good public policy from a taxpayer's standpoint, but it will provide program beneficiaries the assurance that should they be victimized by a natural disaster, they will not have to spend the rest of their lives paying off Uncle Sam, as is the case today with many farmers inundated with defaulted FmHA Emergency Disaster Loans.

#### **Price Competition is Good**

3. We support the provision that allows more efficient insurance companies to reduce rates charged to farmers and ranchers. As part of the private sector, we bankers feel that all things being equal, the private sector can do things more efficiently and cost effectively than the government. And we feel that this program, too, can benefit by abolishing the master marketer concept and relying totally on the private sector.

And we believe that producers should reap some of the benefits of more efficient and cost effective programs. Price competition is fundamental to the free market system. It has worked in every sector of our economy, and has assured Americans of the highest quality products and services at the lowest possible prices. We believe price competition would have the same effect on crop insurance.

#### **Dual Delivery System is Concern**

4. While we support the feature of the bill that requires farmers to purchase higher coverage policies exclusively from private agents, we have some concerns about delivering the basic catastrophic coverage programs through Federal offices.

Many of us remember when crop insurance was sold in county ASCS offices, and many of us also remember that the only time they performed that function with any enthusiasm was when their normal workload requirements were completed. The fact of the matter is that ASCS employees have neither the expertise nor the inclination to deliver this product in an effective, conscientious manner. And the result of that attitude will be, in my opinion, that many producers will not be given adequate guidance on other buy-up opportunities that might better suit their individual requirements.

The apparent solution to this dilemma would be to deliver the catastrophic coverage exclusively through trained and qualified private insurance agents. There may be other ways to address this problem as well. But the important point is that the basic package may not be the appropriate package for most farmers. Indeed, the 50/60 coverage level won't keep many farmers in business unless they have other resources they can fall back on. So it is critically important to assure that every farmer and rancher have the opportunity to consider buy-up policies in an informed manner. And maintaining a dual delivery system may not achieve that objective.

#### **Make Crop Insurance Funds Mandatory**

5. We support moving crop insurance from the discretionary to the mandatory account to make it less vulnerable to political manipulation. Under current law, the crop insurance program is a hostage of the appropriations process. So long as the leadership of the appropriations committees in Congress supports crop insurance, it will be adequately funded. However, if that were not the case, the program could be terminally crippled by withholding adequate funding.

If, indeed, crop insurance is going to be the primary risk protection program available to farmers and ranchers, then it must have the full faith and backing of the Federal

Government. And moving crop insurance to the mandatory side of the ledger will achieve that goal. Some have objected to this from an accountability standpoint, but so long as private companies are subject to the terms and conditions of renewable reinsurance agreements, there will continue to be full accountability to the Government and taxpayers.

### **IBAA Supports Supplemental Products**

6. Finally, Mr. Chairman, as suggested in our policy resolution, IBAA believes expanded authority should be given to the private sector to develop creative programs and policies to provide higher levels of protection at affordable prices. Companies already have authority to develop supplemental products. But these products are subject to approval by FCIC, and thus far, FCIC has been either slow or reluctant in approving new products.

One concept IBAA has endorsed is the concept of disappearing deductibles, under which the deductible grows smaller as losses grow larger, so that if a farmer had a 100 percent loss, he or she would receive a 100 percent indemnity. This would address an often-heard complaint from farmers and lenders that current coverage levels are not high enough to justify participation.

Another idea we would like to see explored is converting the program from a yield base to an income or cost-of-production base. Buying dollar per-acre instead of bushel per-acre coverage is a concept easily understood by both producers and lenders, and it would provide an assured cash stream on which credit could easily be evaluated.

### **Conclusion**

Mr. Chairman, on Monday of this week, Secretary Espy addressed about 250 IBAA bankers who had gathered here in Washington for our annual Spring legislative conference. Secretary Espy made an impassioned plea to bankers to support his crop insurance reform proposal, calling it a unique opportunity to enact good public policy. We couldn't agree more. The Administration's crop insurance proposal will take the public-private partnership that already exists, and strengthen it to the benefit of our nation's farmers and ranchers and the communities they serve. In the process, it will save taxpayers some \$750 million over five years.

IBAA hopes that the Budget Conferees will support the Administration's request and fully fund this new program, and we have told them so. IBAA also hopes that the appropriations committees in the House and Senate will support the Administration's package and provide the necessary funding, and we will tell them so. But regardless of the outcomes in those bodies, we genuinely hope that you will take advantage of this opportunity to provide for the long term protection of American agriculture, including farmers, ranchers, lenders, agri-business, and Main Street shop owners, by approving the Administration's crop insurance reform proposal.

Thank you, again, Mr. Chairman, for this opportunity to testify on behalf of our nation's community bankers. I would be happy to respond to any questions you may have.





# National Association of Wheat Growers

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Chuck Merja  
 Secretary/Treasurer  
 National Association of Wheat Growers  
 Testimony  
 before the  
 U.S. House of Representatives  
 Committee on Agricultural  
 Subcommittee on  
 Environment, Credit, and Rural Development

April 21, 1994

Mr. Chairman, members of the Committee, my name is Chuck Merja, of Sun River, Montana. We have utilized crop insurance on our family wheat and barley operation for many years. I thank you for the opportunity to present my views on crop insurance to the Committee. I am serving as Secretary/Treasurer for the National Association of Wheat Growers.

A revised Federal Crop Insurance program has been a long-term goal of our organization, and we urge the Committee to move forward with consideration of the crop insurance reform proposal contained in the Administration's FY'95 budget request.

Fifty-five years ago wheat was the first commodity to be covered by Federal Crop Insurance, and the industry's need for effective price and yield risk protection continues to be a major goal for the NAWG. We are familiar with the Administration's proposed reform of crop insurance and disaster aid, and we believe that the plan's principal features provide a strong basis for development of a viable new program.

"WHEAT DOLLARS ARE IMPORTANT TO THE NATIONAL ECONOMY AND YOUR BUSINESS"

In standing behind the fundamental concept of providing a low level of catastrophic coverage to all farm program participants, we are taking a bold step which many of us have previously been unwilling to take. However, given the continued budget pressures facing all government programs and the solid policy reasons favoring an insurance approach to disaster relief, we believe the time is right to consider change to a single predictable approach to disaster relief. The Administration's approach reflects truthful budgeting, budget discipline, good public policy, improved risk management options for farmers, and reduced costs for taxpayers.

However, NAWG is unwilling to step completely away from standard disaster authority. The best way to prevent the need for future disaster legislation is to establish an adequate, workable, affordable crop insurance program. In this regard, the NAWG supports continued, standby authority for disaster relief programs, until such time as a new regime of yield and price risk protection is proven to be effective.

Extensive debate has already occurred over who delivers the catastrophic coverage in the reform package. This topic was also debated as part of NAWG's resolution process. We are comfortable with the proposed dual delivery system. We believe the existence of private and public delivery will guarantee widespread, well serviced, delivery of catastrophic coverage. We would challenge the critics of public delivery to out-service and out-sell public delivery systems rather than try to politicalize the issue.

Another topic of debate has been the linkage of program participation and the catastrophic coverage plan. The NAWG understands the reasons for linkage; however, we must strongly emphasize that costs are to remain truly a nominal processing fee and are not to be connected to risk, acreage, or crops.

NAWG knows of the interest in expanding FCIC coverage to new crops. However, we don't want to see limited resources spread too thin while the program is still inadequate to meet the needs of the seven commodities (including wheat) that comprise 75% of the existing crop insurance business and most of the potential new business. One of the first issues FCIC should explore would be to develop a seed wheat policy for producers raising high-value seed wheat. These producers tend to be very low risk with adequate production records, however, they may not utilize crop insurance due to inadequate price protection compared to the higher value of their crop.

NAWG participated in a FCIC task force two years ago that recommended the new four-year, building to 10-year, actual production history (APH) plan. As such, we are supportive of how the plan benefits producers with good production history, who have been blessed with good production the past few years. However, the change to the new, more aggressive APH formula has not been without pain. Whether a reform package moves through Congress or not, the highest priority for FCIC should be to develop and implement an affordable catastrophic yield clause to put the brakes on yield declines for producers with multiple catastrophic losses. At the same time, the Administration's decision to

base catastrophic yield coverage from individual APH yields as opposed to county average yields is a vital and important component of the current reform package.

Another issue which must be addressed, whether or not there is a reform package, is the need for a de minimis yield clause. The lack of a de minimis yield clause for small grains continually makes a mockery of MPCII coverage when farmers with 100% losses have their payments reduced by 2 or 3 bushels an acre because an adjuster has appraised the yield at that level. This inequity is further exacerbated by ASCS having a de minimis policy while crop insurance continues to lack such a clause.

The final broad area which NAWG would like to emphasize has to do with the level of federal crop insurance service provided to the farmer/consumer. It is our view that both private companies and FCIC must become more customer oriented. We applaud FCIC's recent decision to reinsure a new supplemental product. However, we are disappointed that it took FCIC this long to utilize the new authority granted by this committee in 1990. We would encourage FCIC and the private industry to aggressively develop, approve and market supplemental policies. Our stated needs for a seed wheat policy and a de minimis yield clause may best be addressed with supplemental policies. Further, the on-going policy debate regarding revenue insurance lends itself to the immediate creation of a supplemental policy to fit that market niche.

The second areas of customer service is the market price election. In the final days of 1993, the Federal Crop Insurance Corporation relented to Grower concerns and changed the 1994 wheat market price elections from the previously announced level of \$2.80 per bushel to \$3.25 per bushel. This is a very significant and responsive improvement for wheat producers and reflects well upon Mr. Ackerman's efforts as FCIC Manager. However, it does serve to illustrate that marketability of the product must come into consideration when establishing the market price election. This final area of customer service is a serious challenge to companies and FCIC alike, however, it is key to the success of any reform package.

Mr. Chairman, members of the committee, thank you for the opportunity to testify before your committee. We are committed towards reforming crop insurance and addressing the public policy concerns of risk management. I will do my best to answer any questions you may have.

Thank you.





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Testimony by Myrl Mitchell  
of Lenorah, TX  
on behalf of

The National Cotton Council of America  
before

Subcommittee on Environment, Credit, and Rural Development  
The Honorable Tim Johnson, Chairman  
April 21, 1994

Thank you, Mr. Chairman for the opportunity to appear on behalf of the National Cotton Council to provide testimony on the Crop Insurance Reform Act of 1994. My name is Myrl Mitchell. I am a cotton producer and ginner from Lenorah, Texas who utilizes the multi-peril crop insurance program as a necessary risk management tool for my operation. I serve as a member of the Board of Directors of the National Cotton Council and as Chairman of its Crop Insurance Advisory Task Force. We commend you for holding this hearing. The concept of Crop Insurance reform is something our industry has wrestled with for many years. Reform is essential if this program is to effectively replace disaster relief and entice more participation. We believe the proposal to develop a new program is moving in the right direction.

The National Cotton Council supports the concepts included in the Secretary of Agriculture's Crop Insurance Reform proposal. Obviously, the devil is in the details. I must caution, however, that cotton producers are skeptical that a workable crop insurance program can be developed. That is why it is critical that FCIC's staff continue to listen carefully to regional concerns and develop provisions that truly make the crop insurance program useful. We cannot design a one size fits all policy.

We are actively working with other commodity groups seeking full funding for the plan. With proper funding, reform will provide improved risk management for producers. Passage of the new catastrophic coverage program will eliminate the uncertainty of ad hoc disaster availability and the proposal would provide producers with 50% yield coverage at 60% of the average market price. USDA and OMB assert, and we agree, that producers are better off under this proposal than under a disaster bill at a 50% prorate. We are also encouraged by the reduced premiums for higher coverage levels.

As many crop lenders require crop insurance for production financing, producers need the certainty that a workable, properly funded crop insurance program provides. While still skeptical of the precedent, producers have generally accepted the "voluntarily mandatory" aspect of the catastrophic coverage of the reform plan as required for farm program and FmHA participation with a \$50 per crop processing fee. We acknowledge the plan provides for an option for producer to buy the basic level of coverage at his local Farm Services Agency or

through private insurance agents. We are supportive of this option for producers. "Buyup" coverage would only be available through private insurance agents. While our industry supports the Administration's catastrophic program as the principal mechanism for reform, we also maintain that flexibility with different coverage options is necessary to increase participation and meet specific regional and crop needs. Since most cotton farmers would be interested in the higher levels of coverage, we would urge further consideration be given to reducing the cost of higher levels of coverage.

Mr. Chairman, in anticipation of action on crop insurance reform this session, the cotton industry has hosted or participated in a series of meetings throughout the cottonbelt to hear comments from producers on the Secretary's reform plan. It was Mr. Stenholm's idea to host the first one in Abilene, Texas, and it went so well that we tried to model the later meetings after it. I believe there is one going on right now in Congresswoman Lambert's district in Arkansas. In these meetings in Abilene and Lubbock, Texas, Arizona, Georgia, Louisiana, and Alabama, we have heard comments that can be condensed into five areas of interest or concern with the current program and the reform proposal. FCIC Manager Ken Ackerman or someone on his staff was at each meeting and listened to these concerns. In each area of interest or concern, Mr. Ackerman and his staff have agreed that there is a need to address these concerns and are already working on administrative solutions that, once perfected, will hopefully be added to the legislation. The remainder of my testimony will focus on these cotton industry concerns.

The cotton industry believes that the proposal should include a catastrophic yield adjustment when calculating actual yields during disaster years. Administrative efforts to comply with Congressional mandates to reduce loss ratios have relied to a great extent on the use of actual production history, a concept our industry supports. Unfortunately this concept makes no allowance for disasters and, in fact, severely reduces the coverage for a producer through no fault of his own. Under the current program, a catastrophic loss year or "zero year" simply goes into a producer's yield calculation without recognizing that he might not have another disaster for many years into the future.

Thanks to encouragement from Mr. Stenholm and other members of this Committee, FCIC fortunately has recognized this problem and has developed an actuarially sound proposal that is still under consideration. This proposal would allow actual yields in disaster years to be compared to various percentages of "T" or "D" yields, depending upon the number of years records are available, using the higher of the two. This would increase the level of coverage available while maintaining the concept of actual production history. Premium ratings would continue to be based on actual production. Upon initial review by our industry, this approach has merit.

Another suggestion that would enhance insurance reform would be the addition of a harvest incentive when determining losses. Currently disaster programs contain provisions that allow crop production to be zeroed out without harvesting if production estimates are less than harvest costs. A similar provision is needed for crop insurance. However, to prevent inaccurate estimates of production, the application of harvest yield costs need modification. One method would be to allow producers to harvest a crop and receive credit for the harvest cost. That is to say, a producer would not have to count the production equated to the cost of

harvest against any loss. This would provide an incentive to harvest. FCIC along with universities and other government agencies would have to determine appropriate harvest cost yields for each region as harvest methods vary. Consideration could also be given for third party verification on zero or disaster yields. This would strengthen the credibility of the program and improve loss histories. In addition to improving the program, harvest incentives benefit the processing and marketing industry segments.

FCIC is to be commended for their continued evaluation of optional products that enhance the value of crop insurance to the producer. One of the points made at many of the regional meetings was the need to have programs that entice non-users of the current program. We are encouraged with programs such as price insurance supplements and group risk programs. One concept that is particularly interesting to our industry is a program based on insuring cost of production. Our industry is in the very early stages of developing this concept, but believe it is viable. An individualized approach to insuring revenue losses relative to some level of cost of production will be attractive to many regions of the cottonbelt currently not utilizing crop insurance programs. We have received encouragement from FCIC Manager Ackerman to continue to pursue this approach, and such work is underway. Other points brought out in the meetings were the need to provide lower premiums for producers with good loss histories or with lower risk operations. FCIC formerly had a "good experience" discount but discontinued the practice. In fact some producers still have this better rate because of grandfathered clauses. We recommend that this practice be re-instituted. Consideration should also be given to premium setting flexibility on irrigated operations. For instance, in Western cotton growing regions, irrigation is the norm and, therefore, results in less risk from weather. They are also highly mobile and would support a provision allowing individuals to transfer actual production histories to similarly classed farms rather than being treated a "new" farmer and being assigned an insured yield of 65% of the D yield. Participation would increase if these matters received attention.

Often losses in crop quality are more economically devastating than production losses. Improvements in the quality adjustment provisions for cotton are needed to make it more effective. USDA has developed a universally-accepted cotton classification system that very accurately describes the quality of our product. Upon review of the current cotton quality adjustment procedure, we believe a better utilization of this classification system rather than spot price differences would better reflect quality losses. We are in the process of analyzing the way the current program is being administered to determine how it can be refined. We hope to have this analysis completed soon with recommendations on what changes are needed. We think this is an area where we can actually save the program money by better insuring quality losses due to damaging weather. We also support eliminating the current 25% deductible for quality losses that is unique only to cotton.

The current Administration proposal only applies to a producer's acreage on a county basis and does not address farm units (i.e. fields or sections). Effectively, this could mean that an irrigated farmer could pay the same premium as a non-irrigated farmer although the risk is considerably less. While we realize that this will impact how the subsidy is distributed, we maintain that consideration of smaller better defined units will improve the program and make it more effective.

For crop insurance reform to be successful, credibility must be restored to the program. Abuse of the program must be minimized. FCIC recognizes this liability and is seeking ways to strengthen its review. We support effective oversight so that benefits accrue to those who deserve it.

Thank you again, Mr. Chairman, for allowing me to present testimony here today on behalf of the cotton industry. We have a vested interest in a workable program both as farmers and as taxpayers. We have received good cooperation from FCIC on cotton industry concerns with the administration proposal and we look forward to working with this Subcommittee and the Full Committee on Crop Insurance Reform. I would be happy to answer any questions that you or the other members of the Subcommittee might have.



## National Family Farm Coalition

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Testimony of Katherine Ozer  
on behalf of the National Family Farm Coalition  
before the  
Environment, Credit, and Rural Development Subcommittee  
of the House Agriculture Committee on  
Federal Crop Insurance Reform Act of 1994  
April 21, 1994

My name is Kathy Ozer. I am the Director of the National Family Farm Coalition (NFFC) which represents 39 family farm and rural advocacy organizations in 30 states. Our organization was formed in 1986 to provide both a link and a voice for family farmers in the debate over federal farm and food policy.

I am testifying here today to strongly support a change in the way the federal government prepares for and responds to disasters which strike at the livelihood of family farmers. Farmers need a farm policy that works and a disaster and/or insurance program that is accessible and affordable. If farmers received a fair price at a level that more closely meets their cost of production, it would be more plausible that a "bad" year is not as economically devastating.

The NFFC supports the USDA proposed disaster and crop insurance program with a few changes. We support the Federal Crop Insurance Reform Act of 1994 provision that would require catastrophic coverage for participants in any farm program. The package of coverage needs to provide economic security for producers of all crops and in all regions. A concern is what level of loss does this catastrophic level translate into? Our understanding is that it would trigger in once a farmer has lost 50% of production and pay at 60% of the price. This price however could fluctuate and could be lower than the target price.

Would the funds needed to meet these losses be considered an entitlement in the budget in exchange for removing the emergency off-budget nature of current agriculture disaster proposals? If not, this government disaster level could be reduced by a formula based on the availability of limited resources which would undermine the whole system.

The other major question that has been raised by our Disaster Task Force that has reviewed the proposal is: What happens before the catastrophic disaster coverage kicks in? Our understanding is that private crop insurance sold through crop insurance agents or ASCS would be available. The critical



question is, "at what price?" Our concern is on the price to the farmer struggling to meet cash-flow and budget projections and to the federal government in the form of subsidy payments to provide the insurance. It is in this area that we have come up with a proposal to help farmers "self-insure" against some of their possible losses. It would be through an expansion of the current Farmer Owned Reserve to make it into a true disaster reserve. This reserve could be released by ASCS when and only when a certain loss level had been reached on the individual farm or within a county. We would propose that it be in the 65-70% production level. In these cases, a farmer could still purchase crop insurance to protect against initial losses before the 65% level. The grain taken out of reserve would then be available for orderly marketing.

We propose to establish a level of bushels of each commodity that the government wants to have on reserve and off the market. The grain in the disaster reserve would not be eligible for a loan. Farmers could be eligible for a cost-share payment to build or maintain high quality grain storage. Farmers would continue to receive the farmer storage rate instead of the higher commercial rate. We know that our proposal is more easily applicable to wheat and feed-grains and some other storable commodities but feel that it should be considered as part of the package as we address the different options that could work together to cushion the weather risk.

We would ask that the Subcommittee look at the costs to the federal government of the insurance subsidy for wheat and feed-grains for this range of protection in contrast to the costs of an expanded grain reserve. As part of this analysis, we would also request the impact on net farm income if a farmer had these two types of coverage and the same level of loss.

Who needs to be covered? These programs need to respond to the family farmer who has made the transition from corn and soybeans to growing produce for a local farmers' market as well as the diversified farmer who milks 50 cows and raises 100 acres of corn but still buys hay for feed. Beginning farmers or farmers making the transition from conventional farming practices to low or no chemical use must not be penalized by a long requirement of 4-10 years of personal crop history to avoid a set reduction of 35%. Minority farmers who have historically been under-represented in farm credit and federal farm programs should not be doubly hit by loss of coverage in a disaster. These are the farming businesses and operations that all too often are already the most vulnerable due to other situations. These new programs need to minimize the risks not increase them.

Last summer, the flood in the Midwest and drought in the Southeast became the priority issue for our organizations throughout the country. It has been a crisis/credit intervention, pushing for legislative and administrative changes

in the disaster program, and educating farmers and others in the rural community about what is and should be available. The impacts of last year's weather is felt far beyond the flood waters. Every dairy and livestock farmer has been facing increasing feed costs. For those who produced hay crops without value, USDA stated that they couldn't produce a formula to calculate loss and there was still some value in that it could be used as "bedding".

It has been a frustrating process to say the least. In Missouri, where yesterday's Washington Post talks of 33% of the nation's \$10 billion of flood losses; there were only 241 applications for FmHA emergency loan. Of these, 67 have been approved. There are only two small areas in Missouri that are still accepting applications. 2.1 million crop acres were lost last year. Is this low application rate due to lack of information or frustration? I certainly doubt it is due to existing disaster coverage and crop insurance premiums providing enough to keep farm businesses going. In fact most of these farmers have no idea whether they will be able to grow a crop this summer or have access to credit to purchase inputs. In Iowa over 2,000 farmers filed FmHA Emergency Loan applications on the deadline. For many others the information about having to pledge 150% of ones assets for every \$1 of the loan created a barrier. FmHA sensibly reduced that level to \$1 of security for every \$1 of loan but this change didn't take effect until **after** the application deadline for most states.

The disasters of 1993 put the capacity of USDA and other government agency disaster response systems on the line. In many cases they failed miserably. What is the responsibility of USDA to publicize and inform farmers and their communities about these deadlines and changes? Are local offices even aware of the changes? Are there informative and accurate materials distributed by USDA to help farmers understand and decipher the maze of rules, regulations, and deadlines that govern these programs? We would contend that USDA needs to make it much easier for farmers to access their programs and become much more farmer-friendly. Farmers Legal Action Group (FLAG) produced an excellent Farmers Guide to Disaster Assistance. These types of manuals need to be supported by USDA and to ensure its dissemination to farmers and agency personnel.

It is now - the spring of 1994 when farmers are trying to obtain credit and assess the real damage of the past year. FmHA is now starting to foreclose after their March 1994 lifting of their year-long "suspension" which could hit many of the same farmers with a double whammy. In addition, there is legislation brewing to make changes in FmHA debt restructuring resulting from their credit reviews but primarily prompted by the "wealthy FmHA borrower" press from late January. We are concerned that these changes not remove existing borrower rights from farmer/borrowers in the rush to change the system.

NFFC supports a comprehensive approach to disaster and farm policy that helps to ensure that family farmers do survive. We urge you to continue asking these important questions and find the answers. The policy put in place now must work to make sure that natural disasters do not force farmers out of business, just like an insurance system helps to ensure that fire, loss, or disaster should not make me homeless. We are talking about homes, jobs, and livelihoods that are very vulnerable due to current inadequacies in the crop insurance and disaster provisions. We look forward to working with this Subcommittee on this important issue and appreciate the opportunity to present this testimony. I would be happy to answer any questions.

**STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION  
TO THE SUBCOMMITTEE ON ENVIRONMENT, CREDIT AND RURAL  
DEVELOPMENT OF THE HOUSE COMMITTEE ON  
AGRICULTURE  
REGARDING FEDERAL CROP INSURANCE**

**Presented by**

**Doyle Rahjes, President, Kansas Farm Bureau,  
and Member, AFBF Board of Directors**

Mr. Chairman, thank you for this opportunity to testify on crop insurance legislation on behalf of the American Farm Bureau Federation with its 4.2 million family members from across the nation.

My name is Doyle Rahjes, and I am the president of the Kansas Farm Bureau and a member of the Board of Directors of the American Farm Bureau Federation.

As a member of the National Commission for the Improvement of the Crop Insurance Program, which completed its work in July, 1989, I hope to share with you both my experience there and my activities on crop insurance within the Kansas and American Farm Bureaus.

At the AFBF 1994 Annual Meeting held in Ft. Lauderdale, Florida, the voting delegates reaffirmed our long-standing policy that crop disaster programs and crop insurance should be combined into a single program designed to obtain the greatest amount of participation.

That is why we feel the objectives and the techniques of the administration's crop insurance proposal are worthy of serious consideration by Congress.

We do, however, have some reservations about certain provisions in the proposal that we feel are contrary to achieving full participation and which apply unnecessary eligibility tests that would further discourage full participation in both the crop insurance and the price support programs.

Farm Bureau policy is very clear that participation in a crop insurance program should remain voluntary and that there should be no mandatory linkages between farm program participation and Farmers Home Administration loan eligibility and crop insurance. The current proposal does not satisfy that requirement. Even though the linkage in the proposed program is limited to participation in the catastrophic coverage portion of the crop insurance program at a nominal fee, it establishes a mechanism that could become very burdensome for

producers. Moreover, we are concerned that the nominal costs of the mandatory portion of the program would set a precedent for the future. A cap on participation fees for catastrophic coverage which is set at \$100 today could escalate rapidly under future budget pressures, yet producers would be required to participate whether or not they get any real individual benefits from the program. In brief, we believe that a well-designed and attractive voluntary program will work much better. Voluntary access and freedom to participate always win over government coercion.

Another important concern is the linkage between crop insurance and farm program participation. If this linkage is made, then Congress would face a very difficult task of making sure that appropriate measures are taken to isolate the catastrophic portion of the coverage from future budget reconciliation considerations. About \$700 million in new money is being requested by the House for the crop insurance reform effort based on previous program crop expenditures resulting from ad hoc disaster legislation. There is concern that if funding remains at the \$700 million level, non-program crops might be treated inequitably. If there were farm program crop overruns (particularly if parliamentary changes make it increasingly difficult to pass ad hoc disaster assistance for non-insured crops), then non-covered crops would likely receive reduced or pro rated benefits.

We have a number of specific concerns about the levels of coverage. First, the 50 percent yield loss provision of the "basic coverage" provides substantially less coverage for moderate losses than disaster programs that have been implemented in recent years. In other words, disaster funding has been applied to losses below 65 percent of normal production, whereas the proposed crop insurance reform "kicks in" only for yield losses greater than 50 percent. Another shortcoming of the crop insurance reform package is its reliance on yield as a trigger mechanism for insurance payout.

Farm Bureau strongly favors coverage based on dollars per acre rather than yield. Reliance on yield as a trigger mechanism tends to skew the program in favor of high-risk production acres and makes it much more likely that gaps in coverage will exit.

Second, with respect to the "buy up" provisions, it is unclear as to where, and from whom, producers must purchase this coverage. Here there is another potential gap in coverage. By virtue of it being a yield-triggered pay versus a dollar per acreage coverage, even if narrowly drawn, there is an invitation for future retrenchment of program benefits, and as such make the overall crop insurance plan less effective when the day comes that a future Congress will be urged to provide disaster relief beyond that provided by the crop insurance program.



Finally, there are a number of provisions in the administration's proposal in Section 522, the "non-insured assistance program" that we view with great concern. They include:

".....(8) A person who has qualifying gross revenues in excess of \$2 million annually, as determined by the Secretary, shall not be eligible to receive any non-insured payment."

This section then goes on to define "qualifying gross revenue".

Granted, the scope of this language is fairly narrow, and the \$2 million threshold might appear to many observers as high, there is great mischief afoot in establishing a "means test" in this legislation.

Veteran members of this committee will recall the 1990 Farm Bill debate and the floor struggle necessary to avoid a much lower \$100,000 means test amendment for price support program eligibility.

It seems obvious to us that the \$2 million level or any stated level will become an early and easy target for budget cutters.

Another troublesome provision in Section 522 also states as follows:

"(e).....payment limitations -- (1) The total amount of payments that a person shall be entitled to receive annually under this section may not exceed \$100,000."

The section goes on to define "person" along the same lines as now apply to price support programs.

Finally, the language regarding the estimation of yields by averaging observations from a minimum of four previous crop years needs to be clarified for fruits and vegetables. For some fruit and vegetable operations in the more temperate climatic zones, there may be several crops planted sequentially in the same calendar year. In light of this, is the intent of the legislation really yields of crops planted in "four continuous crop years," or "four consecutive crop plantings?"

In summary, Mr. Chairman, we feel this proposal has many attractive features, and the basic idea behind it is sound.

However, we hope you and the rest of Congress will amend it by deleting or changing the provisions we find counter productive and unfair.

TESTIMONY OF LELAND SWENSON, PRESIDENT OF THE NATIONAL FARMERS UNION, REGARDING CROP INSURANCE REFORM, PRESENTED TO THE HOUSE AGRICULTURE SUBCOMMITTEE ON ENVIRONMENT, CONSERVATION, AND RURAL DEVELOPMENT.

On behalf of the 250,000 families of the National Farmers Union I wish to thank you for holding this hearing on H.R. 4217 and the reform of federal crop insurance. Delegates to our 92nd annual convention held this spring in Fargo, North Dakota, expressed strong support for improving crop insurance with the addition of catastrophic coverage. Attached as exhibit A is a copy of the special order of business from the delegates.

My testimony today will address the following items included in the H.R. 4217:

1. Repeal of ad hoc disaster
2. Establishment of catastrophic coverage
3. Linkage to farm programs
4. Delivery system of crop insurance
5. Industry competition
6. Assistance for uninsurable crops
7. Actuarial soundness
8. Budget authority
9. Adequacy of higher levels of coverage
10. Federal Crop Insurance Advisory Committee

Repeal of Ad Hoc Disaster - National Farmers Union supports the repeal of ad hoc disaster authority if catastrophic insurance is made available to producers at an affordable price.

The Adequacy of Catastrophic Coverage - H.R. 4217 would provide protection against losses greater than 50 percent, at a payment rate of 60 percent of the expected market price. This yields coverage of about \$.30 per dollar of loss in a complete disaster year.

The proposed level of coverage compares to the 1993 disaster program which paid \$.42 per dollar of loss, and the 1992 program which paid \$.19 - \$.21 per dollar of loss, depending on whether the producer had purchased crop insurance.

The adequacy of the catastrophic coverage will depend on how losses are calculated, as well as how the payment rate is determined. We support the provision which allows producers to choose whether to use actual production history (APH) or area yield. We would like to strengthen the language to require that both are offered. We further recommend that APH should be calculated by excluding production from disaster-declared years.

We also recommend that the payment rate is increased to 100 percent of the expected market price.

**Linkage to Farm Programs** - We support offering crop insurance as a benefit of farm program participation. We further support requiring participation at the catastrophic level, as long as the cost of participation is limited to \$50 per crop, per county, with a cap of \$100 per producer per county.

**Delivery System** - Dual delivery offers producers the option of where to obtain the catastrophic coverage. It also raises some questions. Who will do the adjusting? Who will pay the administrative cost if the producer obtains coverage from both Farm Service Agency and the private agent?

We support providing additional coverage through a private agent. We also support waiving the administrative fee for those who sign up for coverage greater than the catastrophic level.

**Industry Competition** - We support allowing private insurance companies to compete on lower rates and increase the level of available coverage.

**Assistance for Uninsurable Crops** - We support providing a permanent disaster program for uninsurable crops. However, we believe a producer should establish a crop production history before becoming eligible for disaster assistance. This will prevent producers from farming the program.

**Actuarial Soundness** - We support the goal of approaching actuarial soundness. We believe this will be better accomplished by implementing the use of actual production history.

**Budget Authority** - We support increasing the budget authority to accommodate the funding request of the Administration. We would point out the additional spending will result in savings of \$750 million to \$1 billion, over a five year time period.

**Adequacy of Higher Levels of Coverage** - We believe that crop insurance will not provide adequate loss protection unless producers participate in levels of coverage higher than the catastrophic coverage. We believe coverage should be available to allow the producer to cover the cost of production, including yield coverage at the 65, 75, and 85 percent levels.

We further recommend that a premium subsidy is offered to encourage producers to participate at these higher levels.

Producer participation in the catastrophic level alone will provide insufficient loss protection and will create a demand for disaster assistance.

We support provisions in the bill which require producers to be offered coverage for loss of yield and prevented planting.

We support the provision which allows the producer to choose between APH or area yield when both are available. However, we would like to go an additional step by requiring that both be made available.

**Federal Advisory Committee** - We support the establishment of the Advisory Committee for Federal Crop Insurance. However, we recommend requiring that at least half the board be comprised of family farmers.

#### Summary

We offer our strong support for the reform of crop insurance and we stand ready to work with the Administration and Congress to ensure that the final bill will address the needs of producers as well as minimize budget exposure.

(Attachment follows:)

**Special Order of Business**  
**Federal Crop Insurance Reform**

We commend the Administration for supporting the reform of the Federal Crop Insurance program.

We support provisions which would provide catastrophic coverage as a requirement of participation in commodity programs or Farmers Home Administration lending programs.

We support allowing producers to base yield coverage on actual production history (APH).

We support offering producers assistance to purchase coverage above the catastrophic level.

We support offering coverage for late or prevented planting.

We call on Congress to make the following additions to the above-stated provisions:

1. We support allowing producers to exclude disaster years from APH calculation.
2. We support adding an additional level of coverage higher than the 75 percent level.
3. We support basing expected price on the higher of the target price or the 5 year rolling average of the 12 month market price.
4. We support requiring insurance companies to offer both APH and area yield options to producers.
5. We support maintaining the Secretary's authority to call for disaster assistance if needed, recognizing that these reform provisions will significantly reduce the need for disaster assistance.

National Farmers Union Convention  
Special Order of Business  
Adopted March 7, 1994

Exhibit A



STATEMENT OF  
MICHAEL CONNEALY  
RURAL COMMUNITY INSURANCE SERVICES, INC.

BEFORE THE  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT, AND RURAL DEVELOPMENT,  
COMMITTEE ON AGRICULTURE, U.S. HOUSE OF REPRESENTATIVES

APRIL 21, 1994

Mr. Chairman and Members of the Subcommittee.

On behalf of Rural Community Insurance Services, Inc., we appreciate the opportunity to testify before this Subcommittee concerning the Federal Crop Insurance Reform Act of 1994. Rural Community Insurance Services is a wholly-owned subsidiary of Norwest Corporation, a bank holding company. Norwest, as a principal provider of farm operating loans to those in rural communities and businesses that support rural communities, considers the crop insurance program to be an essential part of the fabric of those communities. It is our hope that a concrete and meaningful crop insurance program can be continued by Congress regardless of "reform." This proposal addresses many of our concerns, and thank you for the invitation and the opportunity to share our thoughts with you today.

Mr. Chairman, we would like to begin by addressing individually the twelve issues that you posed in your letter of April 8th.

- The adequacy of premium subsidies for catastrophic and buy-up coverage for insurable crops

It is our position that the premium subsidies are more than adequate to encourage participation. Government, in this case, can "lead a horse to water," and the subsidy can't be expected to do more than that. The current conventional program is adequately subsidized in our opinion. Taxpayers should not be expected to do much more for this "self help" program, in our opinion.

- The processing fee of \$50 per producer per crop per county, not to exceed \$100 per producer per county

We feel that a fee is appropriate for the farmer to pay, however, unless all the expenses can be reimbursed to agents and companies for administering this level of coverage, we feel private sector delivery of the "catastrophic" coverage will be inhibited.

- The requirement for producers to obtain catastrophic coverage to be eligible for price support, production adjustment and conservation programs

We are not opposed to this requirement; however, we could see where a "waiver" of some nature could be considered to reduce administrative costs where "low leveraged" producers are concerned. A "waiver" would forfeit all benefits to any sort of "disaster" declaration.

- The dual delivery system: catastrophic coverage may be purchased either at USDA service centers or through private insurance agents; additional coverage may be purchased only from private agents

The expense required to enable the ASCS offices to "sell" this catastrophic coverage might prove to be a concern; however, in light of the limited expenses allowed the private sector, the dual delivery system can't be argued against. It is our position that requiring the purchase of additional coverage through private agents will work well, as the delivery system already exists. This is essential to the program, making sure that decent "buy ups" are available. We must focus our efforts on those producers that need "real" coverage.

- The use of actual production history (APH) for the 4 previous crop years, building up to 10 years, and the use of transitional yields (T-yields) if APH is not available

This idea is acceptable, as long as precautions are taken in design to avoid skewing the formulas against those farmers who are new producers, are adding new land, or have suffered catastrophic loss years. This is true for rating issues as well.

- The provisions for noninsurable crops

Due to the inherent business risk that is part of the nature of agriculture, it would be hard to argue for government involvement in such instances. Where there is no crop insurance program, there is usually a good reason....let's look at the economic impact of "with or without" government involvement. We could do well not to "mess up" where we're not needed....

- The likelihood that ad hoc disaster programs will no longer be available

This is a great idea that we hope becomes reality. Ad hoc disaster assistance should never again be available regardless of the movement on the crop insurance reform. Self-help, risk retention, and discipline should provide a sufficient backstop for those producers who now enjoy the payments provided by the ad hoc disaster programs. These payments are directed to many who have a "limited" need or are doubled with crop insurance.

- **The expense reimbursement formula for private insurance companies**

Our studies and experience have shown that the expense reimbursement formula is not sufficient to deliver the program with the degree of detail and integrity demanded by the Federal Crop Insurance Corporation. It is our position that when you look carefully at all of the costs that are incurred, the government is getting more than its moneys worth. The operating risks are so great that 50 plus private sector contractors in the early 1980's are now reduced to fewer than 20. Our (Rural Community Insurance Services) operating losses were substantial in 1992 and 1993. Loss adjustment expenses need "extra" attention for integrity purposes. Finally, it's time to STOP taking the sales and processing work for granted — currently performed by our local independent agents. These laborers are worthy of their hire and we need to keep them as a motivated sales force.

- **The provision to allow private insurance companies to lower the rates charged to producers**

This provision is not in anyone's best interests, and would likely encourage rebates by agents as well as other avenues of unfair discrimination. We can think of no reason to pursue this issue.

- **The non-standard classification system**

It is our position that the non-standard classification system is working extremely well. As long as the system is "tested" and a reasonable appeal process is in place, it protects the vast majority of producers from the bad luck or the "acts" of a few.

- **The group risk plan**

The program works adequately with crop programs in trouble, such as Southeast soybeans and Midwest forage. However, for most of the crop programs, the group risk plan has proven to be a questionable use of money, resources, and time in our opinion.

- **The market value protection plan**

We agree philosophically that the government should entertain and encourage product development in the private sector; however, attempts should also be made to enhance the basic crop insurance product. For example, with an enhanced and strengthened basic product, most producers who buy crop insurance would need fewer products like the market value protection plan.

## ADDITIONAL COMMENTS.

The conventional crop insurance program is an essential and important tool to Norwest as a lending institution, even more so than as a processor of insurance documents. Norwest is committed to rural America; we are said to be the second largest Ag lender in rural communities in the United States. Whether Norwest lends money to a family farmer or to a business such as a seed or fertilizer dealer that sells its products on credit, crop insurance ultimately provides an important level of collateral, especially for younger farmers who do not yet have significant equity in their land or equipment.

The crop insurance program is essential to the creditworthiness of these farmers and, therefore, to the viability of our rural communities and towns. Those communities and towns, their churches, schools, hospitals, and businesses are heavily dependent on farm income, and therefore are as much affected by uninsured natural disasters as are the farmers whose crops have been destroyed. The Federal Crop Insurance program is as much their risk management tool as it is for the farmers who purchase the policy.

If conventional crop insurance is eliminated or significantly reduced as a source of collateral, the availability of credit will diminish immediately and the consequences of each major storm or drought will affect not only uninsured or underinsured farmers but will resound through every rural community. This is "ESPECIALLY" true of younger farmers or high leverage farmers whom we should try to help. Government need not worry about: "wealthy" or low leverage farmers; subsidy dollars are questionable in our opinion, when sent to those who don't need them.

In 1992, Norwest had a national loan portfolio of about \$775,000,000 on what could be described as land or operating loans including FMHA guaranteed loans. These loans were made with the expectation that proceeds from the sale of the crops were going to repay the loans plus the interest. We have a risk rating method which scores the loan from a high of "one" to a low of "seven." Those operators rated as "one," "two," or "three" would likely not be adversely affected by the loss of a meaningful crop insurance program. These loans amounted to \$220,000,000 or 28 percent of the total. Those rated as "five," "six," or "seven" would most likely be gone from the portfolio --- additionally, we would consider reducing or dropping Farmers Home Guaranteed Loans. These amounted to \$157,000,000 or 20 percent of the total. Those rated as a "four," would be affected by a higher rate, reduced operating line, or no loan at all. The impact of this 52 percent would be significant and costly to the borrower, and ultimately the rural community in which they live.

Norwest's main interest in the crop insurance program is as an ag lender, and our main interest in the reform of the program is as a lender. We also have a strong interest in genuine reforms in the program that will benefit our reinsurers, our farmers, and our agents. Each participant of this program needs to be accountable and also rewarded for quality performance. This includes farmers with low level of loss.

Norwest and other ag lenders (our opinion) already require crop insurance for those who are in financial need; and if there were a choice on the amount of reform, our preference would be to keep the conventional program intact or enhanced (since the farmers are already comfortable with the program, see the benefits, and are participating) before pushing ahead with a great deal of experimental reform. Especially reform aimed at a "catastrophic coverage" that amounts to "0" additional ag loans emanating from the private sector.

Thank you for the opportunity to appear before the Subcommittee, and I would be happy to answer any questions that you may have.



Testimony of

John H. Joyce, Chairman  
Robert W. Post, Jr., Vice Chairman  
on behalf of the

# **AMERICAN ASSOCIATION OF CROP INSURERS**

Before the House Agriculture Subcommittee on  
Environment, Credit and Rural Development

## **Regarding the Federal Crop Insurance Reform Act of 1994**

April 21, 1994

Mr. Chairman, Mr. Ranking Member, and members of the Subcommittee, thank you for the opportunity to present our views on H.R. 4217, The Federal Crop Insurance Reform Act of 1994. These views are expressed on behalf of the American Association of Crop Insurers (AACI), a voluntary membership trade association of the private crop insurance industry. Our association consists of insurance companies, private reinsurers, local crop insurance agents and adjusters.

I am President of Rain and Hail Insurance Service, Inc. of West Des Moines, Iowa which writes federally reinsured multiple peril crop insurance (MPCI) nationwide as well as private crop hail, and fire and allied lines of insurance and I currently serve as Chairman of AACI. Accompanying me is Bob Post, who is President of Dornberger/Berry & Co. which is now a wholly owned subsidiary of ITT/Hartford, who serves as a Vice Chairman of AACI. AACI members write over 60 percent of the U.S. MPCI policies that provide peace of mind for over 700,000 policyholders.

## **THE OPPORTUNITY**

We find ourselves presented with perhaps the greatest opportunity of all time to improve the crop insurance program. Finally crop insurance can be established as the sole means of providing producers with financial protection against crop disasters, as it was originally intended to be following the 1980 Act. We've seen a lot of reform proposals since 1980 as well as considerable ad hoc disaster funding and emergency loans handed out. However, at no time has there been such a consensus for reform or an apparent willingness to merge the ad hoc disaster payment approach into an improved crop insurance program as was the original intent.

The Administration's plan provides: catastrophic insurance coverage on about 50 crops to all farm program and lending participants; added incentives for purchasing additional coverage; and disaster protection for all other crops. We commend President Clinton, Secretary Espy, OMB Director Panetta, Under Secretary Moos, and FCIC Manager Ackerman and their staffs for putting this package together and for choosing what is undoubtedly the best policy approach for addressing crop losses -- insurance. **Regardless of the outcome of the Budget Conference activity, we need to thank Representatives Stenholm and Pomeroy for their tireless efforts on getting the added funding for the reform proposal.**

## **A NEW MINDSET IS ESSENTIAL**

**No matter what legislation is passed by Congress, a reformed crop insurance program can only reach its objectives IF THERE IS A COMPLETELY NEW MINDSET ON ALL FACETS OF THE PROGRAM ON THE PART OF USDA (FCIC/FSA), THE**

**COMPANIES, FARMERS AND CONGRESS.** We must focus on a greatly simplified program both for the catastrophic coverage and additional coverages that will be available. A new program in the old package will not work. A completely restructured program in both appearance and function is what it will take to convince farmers that real reform has happened.

Overall, we believe that there could be at least a one-third reduction in the administrative requirements of the crop insurance program without adversely affecting program performance. At the same time we are working cooperatively with the administration in support of this proposal, we have been presented with a draft reinsurance agreement that adds many new costly administrative requirements with limited program benefit to an already needlessly complex program. Unless USDA (FCIC/FSA) is willing to work with the industry on completely evaluating the need and existence of all current administrative burdens neither the current program nor a reformed program can be delivered in today's restrictive budget environment.

### OUR OBJECTIVE

We, along with others in the industry, believe that the objective of any crop insurance program must be the provision of incentives and opportunities for farmers that permit them to adequately and affordably manage their production risks. The risk protection provided must meet farmers' most basic income and financial needs if a natural disaster strikes.

In achieving that chief objective, universal availability of a catastrophic coverage at little or no charge, by itself, will not be sufficient. Significant participation at greater than catastrophic levels of protection is necessary to adequately protect farmers. ONLY through a continued significant involvement of the private sector in the risk bearing and delivery of crop insurance can Federal dollars be fully leveraged to meet these objectives.

In general, the Administration's reform proposal deserves positive action by the Budget, Appropriations, and Agriculture Committees of Congress. Furthermore, for farmers to be able to get this much needed protection in 1995, the action of the Congressional committees needs to occur very swiftly. However, in order to help the program achieve its maximum effectiveness, we feel that a number of refinements need to be made in the proposal.

These refinements can be categorized in three general areas:

- Program Simplification
- Program Delivery
- Reasonable Return for Private Capital Invested

### PROGRAM SIMPLIFICATION

Farmers are our customers. Therefore, we want to make the program as easy to understand and as simple to participate in as possible so that we can maximize farmer participation. At the same time, a simplified program reduces the government's expense as well as that of the companies involved. Industry and farmers alike are very familiar with simplified procedures of the crop hail program and perhaps several aspects of that program may serve as a model for simplifying the MPCII program.

The principle of simplification should be foremost in the formulation of the catastrophic level of coverage, as there will be some farmers who are participating against their will. However, it is vitally important and wholly justified that whatever simplification measures are adopted for the catastrophic level should also flow through the rest of the program as well. Otherwise, a major disincentive for participation at higher levels of coverage will be created and the opportunity to reduce program costs will be foregone.

**ALTERATION OF COVERAGE LEVELS NEEDED.** There is some complexity in the Administration's proposal as it relates to levels of protection that we believe: is unnecessary; adds confusion; and adds administrative costs to the program. The proposal contains three classes of protection: the 50/60 catastrophic policy; policies between 50/60 and 65/100 or its equivalent; and policies equivalent to 65/100 or higher. The provisions regarding the middle range of policies need improvement.

For simplification purposes, we question the need for offering a range of 50 percent yield coverage/price election mixes given the minimum cost of such policies and the thrust of the proposal which is to have as many farmers adequately protected as possible. It might be advisable to only provide a 50 percent yield, 100 percent price election policy as the next step beyond 50/60. This is a significant increase in liability protection for the farmer, especially when one considers that optional units are available at this level, while only costing a minimal amount.

Providing coverage at this mid-range level is also worth full expense reimbursement and, given the reduced premium levels, would not significantly exceed, if at all, the minimum \$50 reimbursement which we believe the Administration's proposal advocates for all policies. In fact, the application fee and the standard expense reimbursement would be fully justified as it not clear how the loss adjustment costs would be covered for these policies.

Furthermore, the Subcommittee may wish to set a floor under protection at the 65 and 75 percent yield levels that is nearly equivalent with the 50/60 catastrophic policy in terms of dollars or protection. While we need to provide farmers with a variety of coverage choices, there is no need to offer less than is being given away for a minimum application fee.

**NONSTANDARD CLASSIFICATION SYSTEM.** There is much concern in many areas of the country over the administration of the Nonstandard Classification System (NCS) and its impact on farmers. We believe that the catastrophic level of protection should be a bottom-end safety net for all farmers below which they should be forced to go under NCS or any other program.

**PROGRAM INNOVATION MUST BE FOSTERED.** One of the most frequent comments about the crop insurance program is that it doesn't provide enough coverage. We also know of many farmers who currently buy MPC I whose first question about the reform proposal is will it return to me the same level of benefits I am currently getting with both MPC I and disaster payments. The answer to that question is no.

We understand some Members have expressed a desire to focus more of the buy-up subsidy at the 75 percent, thereby reducing those premiums more. We would have no problem with trying to do that provided the underlying risk costs are statistically derived. The Luverne, Minnesota field hearing and other general comments from farmers and farm groups, revealed that many people want subsidies targeted for the 85 percent level of coverage. While the

Administration's bill provides that such levels of coverage may be offered, there are other means for making the program more attractive that the Subcommittee may also want to explore that may meet the same need expressed by farmers in a more economical way for all parties involved.

One such alternative would be a type of supplemental product known as a "disappearing deductible" or "accelerated payout" rider. This type of insurance endorsement would pay farmers an increased indemnity amount per bushel as losses increased to the point if a farmer had a total loss, they would receive an indemnity reimbursing them for 100 percent of their APH. At what level of loss this accelerated payout is triggered and the rate at which it is accelerated affect the premium for such policies. This type of benefit could provide current MPC1 users with the same level of benefits they currently get through crop insurance and disaster payments combined. The premiums for such supplementals are significantly more economical than the premium rates for 85 percent coverage.

The Federal Crop Insurance Act gives FCIC the authority to approve supplemental and alternative products for reinsurance, expense reimbursement, and premium subsidies. Along with the announcement of the Administration's reform proposal, FCIC announced it had finally used this authority to approve one supplemental product on a pilot basis for 1994. We commend FCIC for doing so and encourage this Subcommittee to encourage FCIC to be much more proactive in this arena. Without reinsurance from the Federal Government on supplemental products, they will not be made available on as wide a scale as is justified or needed. In its exercise of this authority, FCIC also needs to set some ground rules to insure the timely consideration, equitable terms, and widespread availability of alternative products. Also, government reinsurance or other support of these products should be made available through cooperative financial arrangements with a minimum of red tape and administrative burdens. Given the proper incentives, reasonable opportunities for return on capital throughout the program, and appropriate government backing, USDA and farmers would be amazed at the explosion of crop insurance products that could be developed by the private sector.

**REDUCTION OF THE PROGRAM'S ADMINISTRATIVE BURDEN.** Faced with shrinking reimbursements to cover operating and administrative costs, most reinsured companies have streamlined operations to the maximum extent possible. However, you reach a point where your options for operational changes are limited by the program you are administering. That is the point we have reached in this program. If we might borrow a term that many Congressman are concerned with — we are facing a form of unfunded federal mandate. Like the state and local governments, we are given ever-increasing mandates by FCIC with no money to comply with these mandates. Companies end up being forced to spend limited resources on crossing "i's" and dotting "t's" instead of on innovative new crop insurance products, improved farmer services, and creative marketing to increase farmer participation.

There are a number of existing program requirements and paperwork burdens that will remain in the reformed program that could be altered for the benefit of all parties involved in the program without adversely affecting program integrity. We have a dual regulatory structure. As you know, insurance regulatory matters are generally governed by state authorities and are usually performance measured. While that system is not perfect, it does work quite effectively.

What we have been experiencing in the last few years is a second layer of federal regulation of insurance functions that often appear more as regulation for regulation's sake and



are not performance based. We are in favor of strong oversight. However, that oversight should be: timely; cost effective; and carefully structured to achieve measurable performance objectives. For instance, if there is a perceived problem with agents and adjusters, is the answer requiring over 20,000 such persons to spend more hours in classroom training? Or is everyone's time and money better spent identifying problem individuals and having a system to identify and correct their performance or to disallow their participation in the program?

As we contemplate adding approximately 1.4 million participants to the program, the streamlining and reduction of the administrative burden for FCIC, the companies, the agents, and the participants, becomes even more vital. We have attached a list of suggestions for the reduction of administrative costs which we believe warrant consideration. These suggestions run the gamut from a simple requirement to require more timely releases of program information to eliminating separate acreage reports to more refined data processing. Overall, we believe that there could be a one-third reduction in the administrative requirements of the crop insurance program without adversely affecting program performance. We hope that the Subcommittee will seriously consider such a reduction as part of the reform package.

**APPLICATION FEE.** While there is much debate about the level of the application fee and its equity with respect to large and small producers, we do caution the Subcommittee about locking specific rates into the statute. As you know, this approach minimizes the flexibility of the Department to respond to changing conditions without having to ask Congress to amend the statute. Perhaps the Subcommittee could strongly express its expectations with respect to these fees in report language.

### PROGRAM DELIVERY

We are in strong support of the Administration's proposed reliance on the private sector for delivering all higher level coverage crop insurance policies. This maximizes the impact of limited Federal dollars and recognizes the preference and convenience of farmers in obtaining insurance coverage. The reestablishment of a government delivery system, however, causes some problems that we believe need to be addressed to make the reform proposal work. We believe the provision for dual delivery:

1. Could threaten the success of the reformed program;
2. Is unjustifiable in terms of cost and performance; and
3. Is inconsistent with both the current crop insurance statute and the reinventing government initiative of the Clinton Administration.

We question the need for, cost effectiveness of, and farmer satisfaction with any government delivery.

**NEED FOR COUNSELING.** The catastrophic protection alone, which approximates the benefits of ad hoc disaster programs of the past is good, but not sufficient to save the farm for most growers when disasters occur. Therefore, the core issue that will determine whether farmers are adequately protected is whether they do, in fact, purchase additional coverage to meet their risk management needs. We strongly believe that professional counseling to quantify risks and match them with the right insurance coverage is indispensable for this



**program to succeed.** Private sector, professional insurance agents are trained, licensed, and in place to perform that task as they do with all other consumer risk management needs.

For most growers, they will entrust the same professional insurance agent for their crop insurance that they trust to help with their other farm insurance plans. These insurance professionals often meet customers at their kitchen table and are able to develop a comprehensive package of farm and crop protection. Government employees are simply not trained, nor should they be, nor do they have the time to attempt to perform this essential duty.

**Meeting the Counseling Needs of Farmers.** At a minimum, we strongly suggest that farmers' risk management needs could best be met if farmers are required to visit a private insurance agent prior to their being able to obtain the catastrophic risk policy at an USDA office. Being adequately covered is much more than filling out a form after standing in line at the FSA office. It is a complex decision for which professional counseling should be provided and which private agents are best positioned to provide.

**UNJUSTIFIABLE COSTS.** Budget constraints argue against the creation of a duplicative infrastructure for the delivery of crop insurance. FCIC has already made the sound decision to discontinue the writing of federal paper because over 93 percent of farmers who choose to purchase crop insurance do so from private agents on private company policies. FCIC realized it could no longer afford to have 24 percent of its resources and personnel devoted to servicing only seven to eight percent of MPCIC policies.

**Government Involvement on Only an "As Needed" Basis.** Due to the fixed costs of a government infrastructure, serious consideration should be given to identifying areas of the country in which there would be no backstop USDA delivery due to the presence and commitment of sufficient private sector insurance forces that will see that every single farmer's needs are met. Government availability of catastrophic coverage would only be needed to address instances (if any) where private insurance agents are not available. This could save hundreds of millions of dollars in government administrative overhead.

**Delivery "Point" Versus Delivery "System".** Another option to consider is that while the USDA office may be a delivery point, the government need not develop a costly and inefficient delivery system infrastructure to back that delivery point up. Rather, the policy obtained at the USDA office could be serviced by the private sector infrastructure already in place. We continue to believe that there are many administrative functions that FCIC is mandated to not duplicate should such services be available in the private sector. Yet, such duplication continues to occur.

**REINVENTING GOVERNMENT.** Finally, if we are serious about Reinventing Government, then there is no better place to begin than the crop insurance program. First of all, we are hitting the ground running because we already have a public/private partnership in place. Secondly, we have an existing statutory mandate to utilize the private sector to the maximum extent possible. 7 U.S.C. 1507(c). Thirdly, as USDA is reorganized and field offices are consolidated and collocated, there is an existing private sector network that can deliver crop insurance -- and even the noninsured standby disaster assistance -- to farmers more conveniently, more efficiently, and more cost effectively than government. We need to capitalize on that opportunity.

The capability of the private sector is illustrated by the fact that should Congress adopt a reform proposal this year, the private sector can have it in place for the 1995 crop season -- meaning this fall -- while the government is still trying to determine who is in charge of what as it deals with its reorganization and what types of computers to buy for FSA offices. Such rapid implementation of a completely redesigned program can be accomplished, but it requires major retooling costs that must be accommodated.

**ADEQUATE DELIVERY EXPENSE REIMBURSEMENT.** As you know, Congress has made the determination that farmers will not pay any premium that is related to the costs of delivering, servicing, or adjusting federally reinsured crop insurance protection. Therefore, an integral part of the crop insurance equation is providing the means for covering these costs.

The administrative expense loaded into the premiums of most property and casualty policies can run as high as 40 percent of premium. While the expense reimbursement for crop insurance used to be around 34 percent, it has dropped year after year as the operating expenses and administrative requirements of the program have increased. The slashing of expense reimbursement took on a new dimension last year as the Appropriations Committee capped the rate at 31 percent in its annual funding measure -- a \$10 million reduction in reimbursements to the industry.

1993 proved that not only can the reinsured companies involved in the program lose money on the risk sharing side of the private/public partnership relationship, but we also stand exposed on the expense side as well. The expense reimbursement equation assumes that there will be loss claims on approximately 35 to 40 percent of all policies. Most companies received claims on as many as 90 percent of their policies in several Midwestern states last year.

Each year we find ourselves at the mercy of FCIC as they draft a Standard Reinsurance Agreement (SRA) outlining the administrative and risk sharing requirements of the private/public partnership that also sets the reimbursement rate. Despite ever increasing administrative requirements and increased costs of doing business like anyone else, the reimbursement rate declines (or stays at the capped rate of 31 percent for this year). This pattern is contrary to that of the flood insurance program where private companies, who bear no risk in the program, have received increasing expense payments.

There is language in the Federal Crop Insurance Act (hereinafter "FCIA") mandating that private companies be reimbursed at "rates of compensation consistent with those generally prevailing in the insurance industry" for functions performed. 7 U.S.C. 1507(c). However, FCIC has always maintained that this language does not apply to standard delivery, servicing, and loss adjustment functions. We believe the FCIA should be amended to make the prevailing compensation rates applicable to all of the functions performed by the reinsured companies. We are not asking for anything special, just something that reflects reality and brings this insurance program in line with insurance practice.

There is also strong justification for some type of expense reimbursement supplement in years like 1995 when the industry will have to undertake a significant retooling of all their operations to accommodate a reformed program. Even in 1994, as this Summary of Changes for Spring 1994 Crops, reveals, we were required to implement a number of significant changes -- especially the new Actual Production History (APH) requirements -- that involved major retooling while facing a five percent cut in our reimbursement rate. Finally, if FCIC makes

changes midstream within a crop year, they should be encouraged, perhaps through statutory language, to provide added compensation for these expenses which were not contemplated by either party when entering the SRA.

**A REASONABLE RETURN ON PRIVATE CAPITAL INVESTED.** An integral part of program delivery is having a healthy private sector available to provide the level of service and competition that farmers want and deserve. The health of the private sector is greatly affected in the crop insurance program by the risk sharing relationship it has with the government.

As this Subcommittee heard from FCIC Manager Ken Ackerman at its earlier Washington hearing, not only did farmers lose big in 1993, but the private reinsured companies did as well. As alluded to earlier, we can assure you that not only did we lose on the underwriting side of the program, we also lost on the administrative expense side due to the significant costs of adjusting the record number of claims.

FCIC Manager Ackerman indicated company losses would be approximately \$83 million in 1993. To put that in perspective, some companies' losses in 1993 exceeded their cumulative profits over the 10 to 13 years they have been involved in the program. The industry as a whole lost in one year most of the 9-years worth of gains that GAO reported in its January 1992 risk sharing report. Furthermore, given the very limited gain opportunities in the current SRA, it would take companies many years to earn back what they have lost in one if they are given that opportunity by corporate executives and shareholders who have other uses for their capital.

Current language in the FCIA states that:

"beginning with the 1992 reinsurance year . . . the Corporation [FCIC] shall revise its reinsurance agreements . . . so as to require the reinsured companies to bear an increased share of any potential loss under such agreement taking into consideration the financial condition of the companies and the availability of private reinsurance." 7 U.S.C. 1508(h).

FCIC has used this language with a vengeance and, despite the devastating financial impact of 1993 and the short supply of private reinsurance, is continuing to apply it so with the 1995 proposed agreement. An attached exhibit shows how the risk has increased over the last few years and far outpaced the gain opportunity.

The Administration proposal includes some improvement in the above language, but we believe it needs further refinement. The bottom line is that the opportunity for gain must be commensurate with the opportunity for loss. As that same exhibit shows, that balanced relationship does not exist in the current reinsurance agreements FCIC is offering. In fact, some recent industry analyses have revealed that if a company placed all of its policies in the fund where it can achieve the most gain and it bears 100 percent of the risk thereby having a right to maximum gain, it would come out losing nearly seven percent over time.

One has to understand that in a program with a historical loss ratio of 1.47, and one now with a long range goal of an estimated 1.1 loss ratio, the rates and programs are such that they build in a loss for companies. Therefore, the reinsurance relationship must be improved and the FCIA should require a reasonable opportunity for gain and should continue to take into account the financial condition of the companies.

**PARAMETERS FOR COMPETITION PROVISION.** A new element of the Administration's proposal is one that would allow companies to reduce premium rates to farmers based upon savings in administrative expense. While all such reductions must be approved by FCIC, we believe some well-defined parameters need to be established to ensure that the farmer benefits from this provision and is not penalized. As we have noted, the administrative burden of this program is great, and while there are some requirements that we feel are unnecessary and should be eliminated or streamlined, there are others that are central to providing farmers with adequate servicing of their policies.

Therefore, strict controls are needed to ensure that any premium rebates are the result of true efficiencies that do not adversely affect service to the farmer or program integrity. Otherwise, the farmer will be on the losing side with fewer choices for insurance and less service by those remaining providers.

**ESSENTIAL QUESTIONS.** Our judgment is that if all costs are captured, the private sector can deliver and service crop insurance policies more cost effectively and efficiently than the government with both parties playing according to the same rules. Therefore, we believe the Members of this Subcommittee should demand to know the facts about the cost of delivering this program through the government. There are a number of questions which if we were sitting in your place, believe need to be answered:

1. What are the costs of this government dual delivery system?
2. How much will it cost to train and license FSA employees across the country to perform the tasks required of them under this?
3. If no additional funds are provided to ASCS or FSA to undertake this new proposal then how much of existing resources are going to be diverted to accommodate this? This would have to occur unless there is a significant amount of over staffing or over funding currently in existence in the FSA system.
4. What will be the impact of this dislocation of resources on the current services and responsibilities of ASCS and FSA to farmers across the country?

We believe these types of questions need to be fully evaluated.

## OTHER ISSUES

There are a number of other issues regarding the reform proposal and overriding administrative issues which impact the current and any reformed program which we also believe are very important. To that end, we have included several attachments we feel the Subcommittee should be aware of and which may assist you in making the decisions you will have to make while formulating the crop insurance reform legislation. We look forward to providing the Subcommittee with additional input as needed and requested.

## CONCLUSION

We have a unique opportunity this year to drive the crop insurance stake deep into the soil to ensure that the tent of protection for farmers will be able to weather the significant winds of change facing agriculture in the years to come. The time for leadership is now. We believe

the Administration has set before Congress a framework for reform that will work if refined and implemented in a manner which capitalizes on the existing public/private partnership of the crop insurance program. **We cannot emphasize enough that this reformed program will only achieve its objectives if everyone involved approaches it with a new mindset.**

We firmly believe that the private sector can deliver, day after day, more bang for the scarce federal dollar available, thereby permitting the intended beneficiaries -- farmers -- to receive the bulk of those scarce dollars. We thank you for the opportunity to appear before you today and look forward to working with you to insure the development and implementation of an improved crop insurance program.

List of attachments:

- Master List of Concerns With the Legislative Language
- Cost of Government Programs for Disasters
- Talking Points on Administration Proposal
- Advantages of Private Sector Delivery
- Agent Count by State
- Comparison of Reinsurance Treaties
- Increased Risk Requirements Under Reinsurance Agreements
- List of Paperwork Reduction Ideas
- Industry Joint Position Statement
- Flow Chart on Administrative Expense Reimbursement Flow
- List of Functions Performed by Reinsured Companies

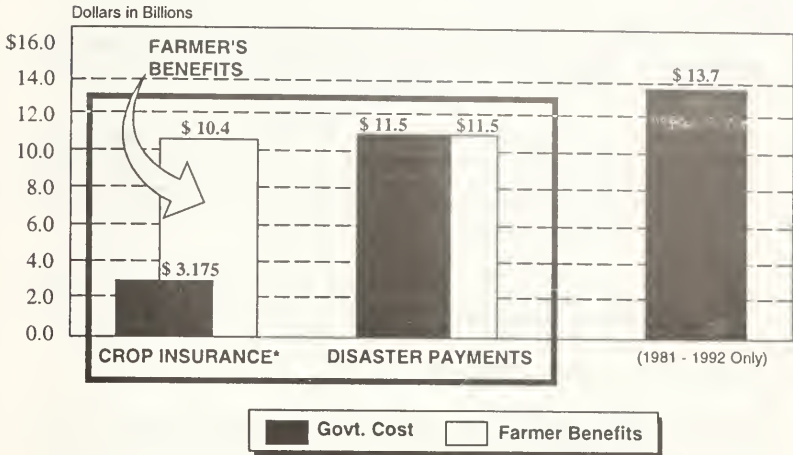


### LIST OF POINTS/CONCERNS THAT NEED TO BE EXPLORED

1. Program simplification/paperwork reduction language.
2. Rewrite levels of coverage:
  - a. 50/60 to 50/100 as first step;
  - b. cap on 65%;
  - c. full expense reimbursement on all buy-ups.
3. Clarify that catastrophic policies are written on a one unit per crop per county basis only.
4. Application fee options:
  - a. Take out specific amounts;
  - b. Per acre basis or some sliding scale;
  - c. Spread across all participants;
  - d. Fees for limited resource farmers -- private reimbursed by govt.?
5. Delivery options:
  - a. Agent first;
  - b. Government only on an "as needed" basis;
  - c. Delivery point v. entire duplicative system.
6. Reasonable rate of return on private capital invested.
7. Reasonable expense reimbursement for administrative and operating functions.
8. Establish some strict parameters for competition provision.
9. Establish reasonable and timely parameters for oversight.
10. Provide litigation support for protecting program integrity.
11. Alternative, supplemental, and optional insurance products:
  - a. Regulations/guidelines needed;
  - b. Test of private sector availability;
  - c. Must be a cooperative financial arrangement.
12. Encourage the increased use of private sector in program reviews, administration, and development to avoid costly duplication.
13. Change substantial interest from 5% to the same definition in ASCS programs.
14. Reinstate cap on FCIC employment.
15. Insure that GRP can be offered only as an option to regular MPCI?
16. Require a thorough evaluation of the cost effectiveness and farmer utilization of GRP and other pilot programs to determine whether they should be continued.

## Government Cost For Current Disaster Programs

(1981 - 1993 Estimates)

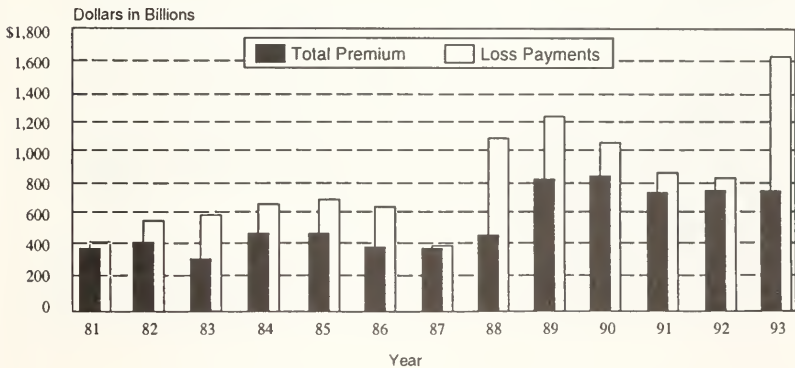


\* Losses in Excess of Total Premium

These figures do not include administrative expenses of any of the programs.

## Premiums & Loss Payments

Multiple Peril Crop Insurance



## TALKING POINTS ON THE CROP INSURANCE REFORM PROPOSAL

### WHY NOW?

It is time for the dual and competing systems of crop insurance and ad hoc disaster payments to come to an end both due to their budgetary costs and to the "disaster" (too little too late) which ad hoc disaster payments are to farmers.

We have seen in recent months the difficulty of "finding" disaster funds and the increasing movement to subject them to PAYGO. This proposal reigns disaster funding in and eliminates the authority for future non-PAYGO ad hoc payments, while at the same time providing farmers with the certainty of having some type of base level assistance in the event of a disaster.

It is in the long-term best interest of our agricultural sector to undergird it with a stable, fully funded, safety net for risk management to handle the unpredictable risks which that sector, and no other, is susceptible to year in and year out.

### WHY A CROP INSURANCE APPROACH?

President Clinton and Agriculture Secretary Espy have recognized the superior attributes of an insurance solution to disaster situations over an ad hoc "throw money at the problem after the fact" solution by adopting a crop insurance solution as the primary means of disaster assistance for the future.

#### Crop Insurance:

Is a plan that facilitates business planning.

Represents true risk management.

Can be used as collateral for increasingly important ag financing.

Encourages self-reliance and responsibility. Farmers help themselves.

Allocates loss costs to those who properly should bear them.

Encourages people to reduce premiums through loss prevention and risk avoidance, thus lowering overall costs to society.

Exposure is measurable and can be accounted for in underwriting adjustments.

#### Ad Hoc Disaster Assistance:

Is unpredictable, ad hoc, inconsistent with planning.

Represents no management whatsoever.

Cannot be used to backstop financing.

Encourages dependence.

Flies in the face of equity.

Discourages risk management.

Exposure is unknown and cannot be accounted for or regained.

## THE ADMINISTRATION'S PROPOSAL REFLECTS:

Truth in budgeting -- Over the past six years the Federal Government has expended \$1.575 billion annually on ad hoc disaster payments in addition to approximately \$900 million on crop insurance, a portion of which is paid by farmers. The Administration's proposal recognizes this budget reality, it puts an end to the authority to handout such funds in the future without paying for them, and it conservatively shifts \$1 billion annually to the crop insurance program.

Savings to taxpayers -- The dual system of ad hoc disaster plus crop insurance over the past six years has cost American taxpayers approximately \$2.4 billion a year. The Administration's proposal according to OMB would cost \$8.1 billion over five years or approximately \$1.62 billion/year. This is a savings of \$780 million/year or \$3.9 billion over five years using actual disaster expenditure figures for the past six years!

Even using the conservative \$1 billion in disaster expenditures from the 10-year average, OMB's estimates show a five-year savings of \$750 million. If CBO's scoring of the cost of the reform proposal is used with OMB's \$1 billion added in the baseline, taxpayers would still show a savings of \$350 million over five years!

Improved risk management options to farmers -- For the many reasons outlined above, crop insurance is a far superior means for addressing disasters than ad hoc payments. Insurance improves farmers' ability to obtain financing and manage weather as well as market risks. The increased incentives in the package for additional levels of coverage will help insure a wider number of farmers are adequately protected.

Utilization of the private sector in partnership with government -- The private sector now delivers and services over 93% of all federal crop insurance in the U.S. Farmers prefer dealing with private agents and companies and FCIC has already decided to phase out federal paper for 1995. The private sector provides a number of advantages that reduce government costs, improve farmer service, and avoid duplicative delivery infrastructures. The reform proposal builds on these concepts. However, it may need to go further and utilize the private sector to the maximum in concert with the Reinventing Government initiative.

Good public policy -- Providing for the risk management protection of America's food and fiber production system is vital to the survival of that sector of our economy and to the continued availability of the world's safest and cheapest food supply. Risk protection becomes increasingly important due to the fact that risks increase as farm program supports decrease, and that decreasing trend is virtually unstoppable. It is in the public's interest to maintain this system in a planned, budget accountable manner. The Administration's proposal does this. In addition, the choice of a insurance solution is also the best policy choice.

Without the full funding, the Administration's reform proposal will not be able to accomplish the goals necessary to provide American producers of food and fiber with the risk management protection they need and deserve at a cost that American taxpayers can afford to bear.

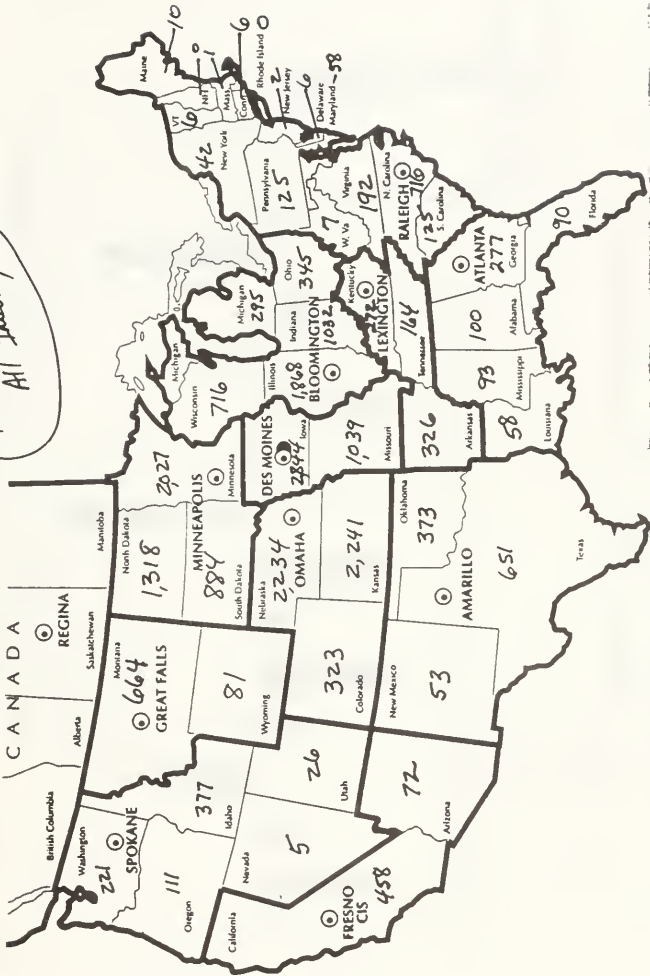
### ADVANTAGES OF PRIVATE SECTOR MPCJ DELIVERY

- \* Local agents are in position in the local communities where the farmers are, they are known, they are trusted, they are experienced, they are licensed.
- \* Farmers have had a choice between direct government policies and reinsured private policies, they have chosen private policies — 92% private; 8% government.
- \* Rural communities are dependent on the jobs and associated economic activity created by a privately delivered crop insurance program — some 68,000 private sector individuals receive all or a part of their income from the sales, service, and adjustment of Federally reinsured, privately delivered, crop insurance. Many of these people are farmers themselves.
- \* Farmers don't have to wait in line to get their crop insurance. The agent often comes to them, agents have evening and weekend hours.
- \* Agents and companies already have established relationships with over 700,000 policyholders.
- \* Reinsured companies have increasingly put their own money at risk in the program and compete against one another. This creates the incentive to do the job right from sales through adjustment. It has improved program loss ratios and cut down on claims errors.
- \* Reinsured companies invest added money in the program through the development of alternative and supplemental products which provide farmers additional means to sufficiently manage their risks.
- \* The creation of a government infrastructure sufficient to make the sales and perform the service necessary to achieve the levels of participation being called for would be enormously expensive and would have to be paid whether the objective was achieved or not.
- \* Reinsured companies and local insurance agents only get paid if they deliver. No sales, no cost. This provides the incentive to them and saves the government money.
- \* Not all farmers participate in government programs, while they may purchase and need crop insurance.
- \* Even free coverage should be delivered by the private sector in order to seize the marketing opportunity to sell farmers the higher levels of coverage necessary to adequately manage their risks and avoid requests for disaster assistance.
- \* With a more stable program, private companies could do even a better job in efficiently delivering crop insurance. Annual instability affects hiring, strategic planning, long-term planning. Mid-year changes significantly affect operational efficiency.

**NOTE:** These advantages have proved themselves through the tripling of farmer participation in the program since delivery was largely turned over to the private sector.



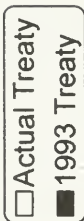
# of MP Agents  
All Industry



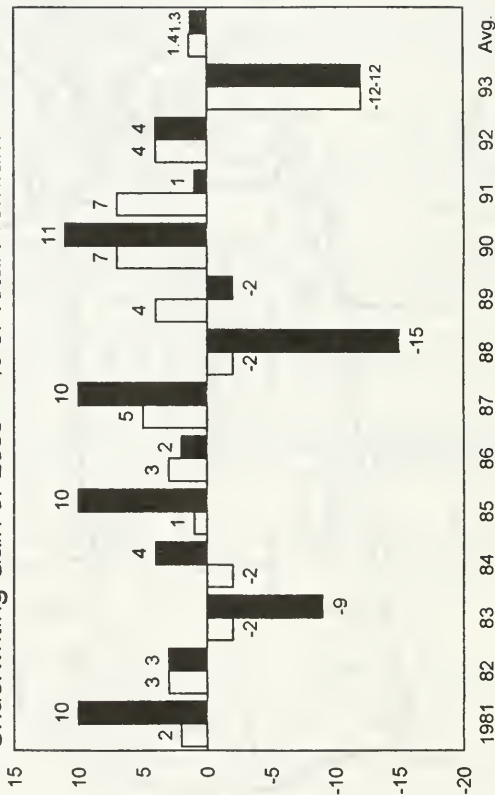
Total 22897 March 1994  
4/15/94  
Some FIC/USDA

# COMPARISON OF REINSURANCE TREATIES

Historical & 1993 Applied Retroactively



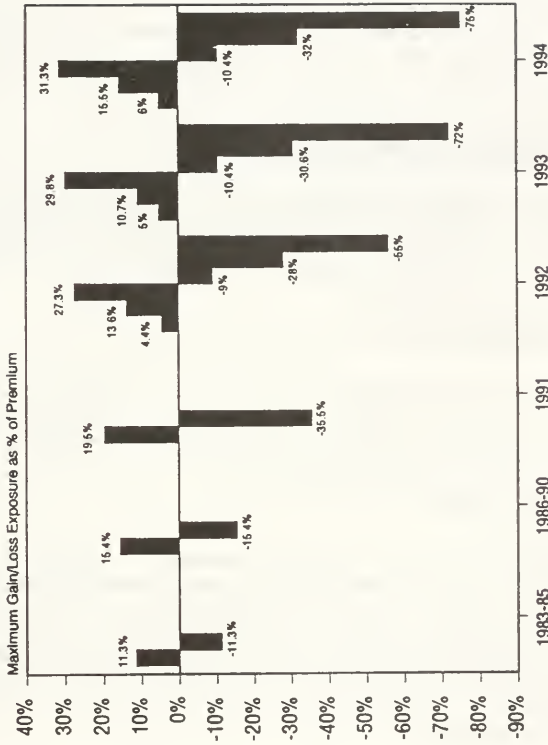
Underwriting Gain or Loss = % of Total Premium



Comparison based on company model of FCIC total book.

# General Illustration of Increased Risk Requirements

## FCIC Standard Reinsurance Agreements For Private Company Participation



Illustrates SRA by State, By Fund

## **SUMMARY OF PAPERWORK REDUCTION IDEAS**

### **1. Timely and Predictable Release of Program Information**

Crop program information and the corresponding actuarial materials are often not released in time for companies to perform strategic planning for such items as internal training, agency training, and proper marketing of the crop insurance program. The program information and actuarial materials need to be in the hands of the companies six months in advance of the sales closing date for the crops affected.

### **2. Tolerances for Acreage Modifications**

After the acreage reporting date, any change in acreage, regardless of size, results in modification to the policy and reissuance of some policy paperwork like the declaration page. If the revision is upwards, an inspection will also have to occur. Tolerances should be established such that acreage can change within tolerance, without requiring inspections and reissuance of policy paperwork.

### **3. FCI-5 Agreement**

Eliminate the insured signature portion for the application for coverage (FCI-5) so the company or the agency is authorized to make the request. The insured must sign the resulting offer of insurance (FCI-2) anyway, making the signatures on both forms duplicative and requiring an extra trip for the insured or the agent.

### **4. Wetlands ACT**

Different approaches are used by different county ASCS offices in verifying compliance with Sodbuster/Swampbuster. All ASCS offices should have the capability to print, based upon written request, copies of a producer's ASCS Form 424 and all offices should use the same system of verification. In addition, the insured must also sign a disclaimer at the time of processing a claim that they remain in compliance with Sodbuster/Swampbuster. ASCS and FCIC should develop an interactive database to streamline this whole process.

### **5. Minimum Premium**

Institute a minimum premium as is done for Crop Hail policies. Companies must process policies with premiums as low as \$1.00. It takes virtually the same time and effort (hence costs) to process small premium policies as it does large ones.

### **6. Data Reporting Requirements**

We must electronically transmit 12 different records types, 250 bytes each, with a total of 485 data fields. Duplicate information is being processed by the FCIC and the insurance companies. We need to eliminate insignificant data, consolidate multiple records into one record group and/or group redundant data and send only once.

### **7. Educational Requirements**

We must furnish agendas, copies of tests, handouts and various other materials to compliance auditors annually to support our training programs. In addition, we also must

provide at least 24 hours of classroom training to each adjuster. Each company should be able to provide compliance auditors with the above data for approval of our training programs one time and not on an annual basis unless they have changed. Also, the company should be able to determine the number of hours of training each individual needs, based upon observation and not some arbitrary requirement.

#### **8. High Risk Land Rating Procedures**

This is currently a manual rating procedure as the FCIC does not have an automated edit in place. In its present state, someone must physically review a map to determine if a policyholder is insuring high risk land. This is very time consuming and inefficient, as the maps are not easy to read, which can result in improper classification. The FCIC itself does not currently have an automated edit in place for high risk land. This means the only time potential high risk land locations are reviewed is in the event of a compliance audit. Obviously, the opportunity for high risk land to be improperly rated and never corrected is great.

FCIC should develop a database of high risk land locations that the insurance companies can load into their systems. This would provide an efficient automated method in which to identify high risk land locations and then rate accordingly.

#### **9. APH & Acreage Reports**

Both APH and Acreage reports are required separately and at different due dates thereby resulting in the file having to be handled twice for information that could easily be provided all at one time. The due dates for both of these pieces of data should be the same, and the data should be reported on the same form.

#### **10. Missing Acreage Reports**

Insureds may choose to not file an acreage report and try to get out of a policy if they perceive conditions to be good at that point in time. If the company wishes to determine whether in fact a crop was planted and the acreage, they must absorb the costs of having an adjuster visit the farm. The company should have the latitude to cancel the policy for non-performance or contract with an adjuster to have an inspection done at the expense of the insured.

#### **11. Obtaining ASCS Established Yields**

On many units, ASCS program yields are required to either establish or complete the APH database. It is the insured's responsibility to provide this information by the production reporting date. There should be a minimum county established yield that could be used when the insured does not provide one. This yield would need to be low enough in order to provide an incentive for the insured to obtain the ASCS established yield. Another option to facilitate this process would be to allow the companies to obtain the ASCS established yield via a documented phone call to the ASCS office without hardcopy documentation.

#### **12. Handling Requests to the Regional Service Office**

In several situations, the company is required to obtain information from the Regional Service Office, called written agreements, in order to write and service a policy. A few examples of this would be crops that do not have a rate established in the county, for obtaining



the determined yields on category C crops and for determining a classification if one is not published on peanuts and tobacco. The companies should be given the necessary authority and training, under established guidelines, to administer the situations that require written agreements.

**13. Consolidated loss adjustment forms/process.**

We would request that ASCS and insurance companies develop one complete source document that would be used for loss adjustment purposes. The form would include line item legal descriptions, acreage, share, practice, intended use, compliance with sodbuster/swampbuster, established yield and any other pertinent data. The next step in the process would be automation that would allow companies by computer modems to access this information. Companies could then dial up and request this for insureds with losses and print the data in their own offices.

**14. ASCS Paperwork re losses**

The current forms, systems, and practice between crop insurance and ASCS as it relates to losses and several program items are totally inefficient and wasteful. Greater coordination and discipline needs to occur. There needs to be one set of rules that everyone must follow.

**AACI   CIRB   NCIS  
PIA   IIAA  
IBAA**

## JOINT POSITION STATEMENT ON CROP INSURANCE REFORM\*

### THE OBJECTIVE OF CROP INSURANCE:

The crop insurance program and, therefore, any reform of it, must provide farmers with incentives and opportunities to adequately and affordably manage their production risks. This risk protection should meet farmers' most basic income and financial needs if a natural disaster strikes.

### MEASUREMENT OF THAT OBJECTIVE:

The success of a government-assisted crop insurance program should be measured by the extent to which it: (1) encourages farmers to get the most risk protection per dollar of government and private money expended; and (2) eliminates the need for *ad hoc* disaster assistance.

### ACHIEVEMENT OF THAT OBJECTIVE:

Reform of the crop insurance program must build upon the underlying framework of the much improved existing program. That framework includes individualized protection based on actual production history delivered by the private sector. A reformed program should treat those farmers who currently take the initiative to manage their own risks through crop insurance fairly, and it certainly should not penalize them. The crop insurance product itself must provide adequate protection at an affordable price.

By itself, universal availability of a catastrophic level of coverage at little or no charge will not be sufficient. Significant participation at greater than catastrophic levels of protection is necessary to adequately protect farmers and replace *ad hoc* disaster assistance. Only through a continued significant involvement of the private sector in the risk bearing and delivery of crop insurance can Federal dollars be leveraged to meet these objectives in today's budget environment.

### ELEMENTS OF A REFORMED CROP INSURANCE PROGRAM:

- (1) Eliminate Ad Hoc Disaster Payments. Multiple peril crop insurance (MPCI) must be established, as it was intended to be in 1980, as the sole mechanism for delivering disaster assistance to farmers. This cannot be achieved without removing the authority for ad hoc disaster assistance. As long as the possibility of such ad hoc assistance exists, many agricultural producers will not take the steps necessary to manage their risk through crop insurance. The Federal Government's liberal provision of ad hoc assistance in the past decade has hindered the success of the crop insurance program and greatly increased the taxpayer costs of assisting farmers in times of disaster. The monies that have historically been expended on ad hoc assistance should be transferred to the crop insurance baseline to fund improvements in and increased availability of that program. Any type of permanent disaster program established for crops not currently covered by MPCI should include a private sector delivery element.

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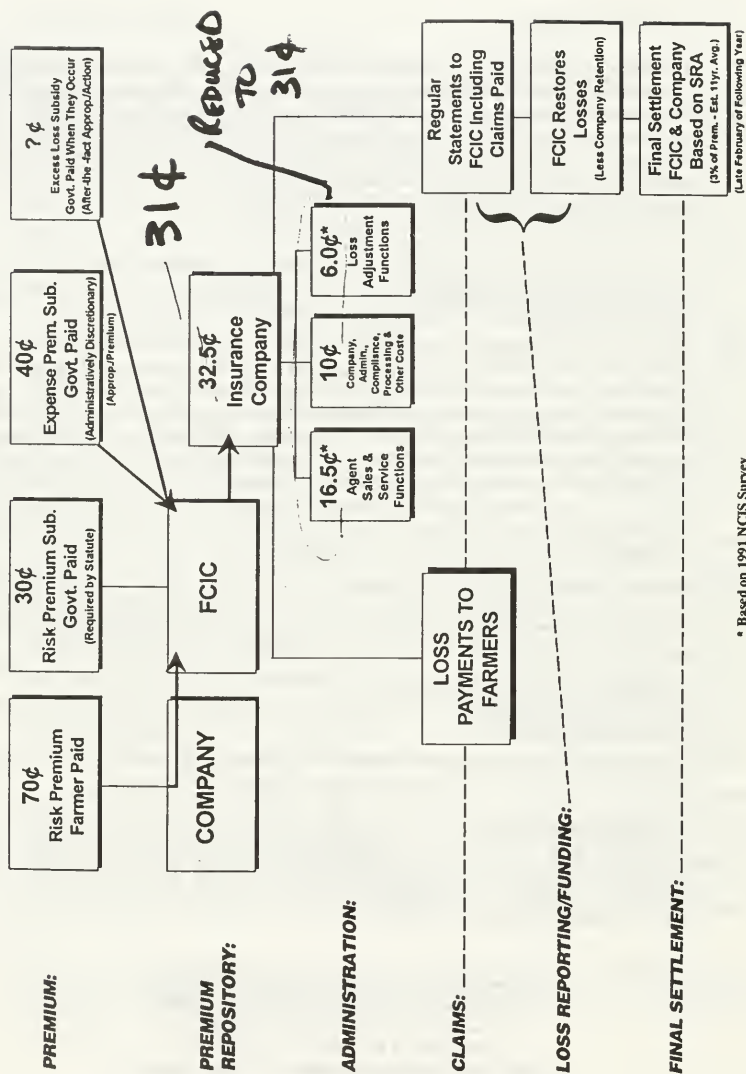
\* Developed prior to the release of the legislative language.

- (2) Universally Available Catastrophic Coverage. We support the provision of some catastrophic level of crop insurance at little or no charge if that coverage is structured and delivered in a way that will enhance the incentive for farmers to acquire increased protection which is adequate to meet their true risk management needs. This coverage should be delivered exclusively by the private sector. The catastrophic coverage should be a standard MPCIC policy that is otherwise the same as a higher coverage level policy so that it may be incorporated easily into a single policy providing higher coverage. I.e., coverage should be on an individualized farm basis using actual proven yields, whenever yield records exist. This would reduce farmer confusion and facilitate the purchase of additional protection.
- (3) Exclusive Private Sector Delivery. Maximum participation of farmers at optimum levels of insurance protection can best be achieved through the use of reinsured MPCIC products and one marketing and service system — the private sector. There should be no government delivery nor any Sales and Service Contractors (Master Marketers). This extends to the catastrophic level of coverage as well. The local agent will be the one-stop shop for crop insurance, or in many cases will go to the farmer to make the farmer's home the point of sale. The government can not afford nor should try to duplicate the tens of thousands of people comprising the current private sector crop insurance sales and service force. Exclusive private delivery would also capitalize on the existing relationships with nearly 700,000 policyholders. Direct FCIC policies and the infrastructure accompanying them should be eliminated.
- (4) Each Farmer On Record As Insured Or Waiving Coverage. The FSA Office should distribute a certificate to each participant of record several months before the crop insurance sales closing date entitling them to a certain level of insurance coverage and verifying their eligibility for insurance. The certificate would double as a statement which the farmer would sign and return to the FSA Office if they chose not to insure themselves with any catastrophic or other level of coverage. That statement would indicate the recipient had: 1) been offered the catastrophic and any other coverage; 2) understood that this was the limit of what he or she could expect from the government in the event of a crop disaster, and 3) declined to participate. Each farm program participant should either be insured or have a signed statement on record. Farmers who do not participate in any farm programs involving the FSA office could receive the same level of insurance coverage by contacting an insurance agent without the need for a certificate.
- (5) Separate USDA Risk Management Unit. A reorganized Department of Agriculture should contain a unit with adequate and experienced staff fully devoted to the management of the crop insurance program and standby disaster program for uninsured crops. FCIC should create a reinsurance division staffed with personnel with experience in the insurance or reinsurance industry. As a laboratory for reinventing government, FCIC should explore turning over a number of program functions to the private sector in accordance with guidelines established by FCIC.
- (6) Government Must Continue as a Reinsurer. The government must continue to provide catastrophic reinsurance to the private sector on all approved policies. An appropriate and equitable blend of risk sharing between private insurance companies and the government should be considered for all levels of coverage.

- (7) Permanent Joint Task Force. A permanent FCIC/Industry Task Force should be established for the purpose of providing a mechanism for a continuing working dialogue on program issues be they one-time or ongoing (i.e., high moisture corn, quality adjustment in general, APH, expense reimbursement, risk sharing, new products, etc.). The Task Force would include reinsured company representatives, agents, adjusters, and government agency representatives and would operate on a roll-up-the-sleeves cooperative philosophy. Such a group could help reduce administrative costs substantially by heading off practical difficulties of various proposals early in the process and certainly prior to implementation.
- (8) Approve Alternative and Supplemental Policies. The existing authorities for FCIC to approve alternative and supplemental policies and to undertake pilot programs with different types of insurance coverage should be retained and fully utilized.
- (9) Provide Fair and Adequate Expense Reimbursement. Congress has made the commitment to the private sector delivery of crop insurance as the most cost efficient method of increasing participation and thereby spreading the risk. If the government continues to pay the administrative and operating costs associated with the sale of crop insurance, whether loaded into the premium or paid separately as it is now, then this reimbursement should be based on the reasonable costs of delivering the program. It must be recognized that those costs increase as the administrative requirements imposed under the program and ordinary costs of doing business increase. If the government decides not to pay these costs, then the prohibition on loading these costs into the premium must be removed and very strict guidelines established to insure uniform and high-level standards of service to policyholders.
- (10) Reduce Administrative Costs of Program. FCIC should conduct a thorough review, in cooperation with the private sector and farm groups, of the paperwork burdens of both the current and any reformed program. Steps should be taken to reduce those burdens and streamline, simplify, and computerize the administration of the program.
- (11) Establish a Catastrophic Loss Fund. A catastrophic loss fund, perhaps by state, by crop, should be established to fund widespread disasters to avoid the need for large premium rate increases following widespread disasters.
- (12) A Competitive Private Sector. In the interest of competition, the program should be crafted to encourage participation of both small and large companies as risk bearer
- (13) Continued Program Reform. FCIC should not let reform happen without continuing to address various aspects of the current and reformed program that remain areas of recurring problems. FCIC should thoroughly review premium rates on a county by county basis to remove existing anomalies. The rates of a reformed program should reflect the risk exposure of the new program rather than the past program.

American Association of Crop Insurers (AACI)  
 Crop Insurance Research Bureau, Inc. (CIRB)  
 National Crop Insurance Services (NCIS)  
 Professional Insurance Agents (PIA)  
 Independent Insurance Agents of America (IIAA)  
 Independent Bankers Association of America (IBAA)

# Funding Flow Chart For FCIC's Reinsurance Program With Private Companies



\* Based on 1991 NCIS Survey



# FUNCTIONS PERFORMED BY REINSURANCE COMPANIES

327

## Underwriting and Processing

APH Field Reviews  
Fund Underwriting  
Verification of Premium and Coverage Data  
Process Applications  
Process, Verify and Approve APH  
Policy Issuance  
Acreage Report Processing  
Issue Summaries of Coverage  
Process and Approve Revised Late Acreage Reports  
Process LPO's, FCI-2's, Assignments, etc.  
Premium Billing  
Premium Collection  
Process Terminations  
Quality Control Over Underwriting and Processing  
FCIC Reporting

## Claims

Adjuster Training  
Claims Audit  
Verification of Claims Data  
Pay Adjuster Expenses  
Forms Production and Distribution  
Claims Supervision  
Adjuster Recruitment  
Claim Related Litigation  
Loss Notice Processing  
Claims Payment Processing  
Escrow Account Administration  
Adjuster Licensing  
1099 Processing  
AD 1026

## Business Acquisition

Agent Commissions  
Agent Recruitment  
Agent Training  
Advertising  
Agent Licensing  
Audit of Marketing Activity  
Production of Forms, Materials  
Distribution of Forms, Material  
1099 Processing

## Other

Litigation  
Corporate Insurance  
Rate and Policy Filing  
Financial Standards/Reserves/Reinsurance  
Data Reporting  
Company Licensing  
Filing Annual Statements  
Income Taxes  
State Solvency Assessments  
Premium Tax  
Punitive Damages  
Cash Flow/Borrowing Costs  
Payment of Uncollected Premiums  
Broker Costs  
Post Hoc Program Changes - Underwriting  
Post Hoc Program Changes - Administration  
Salaries and Wages  
Payroll Taxes  
Employee Benefits  
ADP Expenses  
Misc. Overhead

## **NATIONAL CROP INSURANCE SERVICES**

7301 COLLEGE BOULEVARD, SUITE 170  
OVERLAND PARK, KANSAS 66210

Testimony given to  
U.S. House of Representatives Committee on Agriculture  
Subcommittee on Environment, Credit and Rural Development  
by Robert Parkerson, President,  
National Crop Insurance Services.

April 21, 1994

National Crop Insurance Services (NCIS) has been serving the crop insurance industry, in one form or another, since 1915. Our organization has continuously evolved over the years to meet the changing needs of crop insurers.

We were organized for three primary purposes: 1) to gather and analyze crop statistics so that appropriate premium rates can be developed; 2) to develop standard policy terms and conditions so that agents and consumers need to understand only a few basic program options; and, 3) to develop loss adjustment methods and adjuster training to support the appraisal of crop damage so that losses can be settled fairly.

NCIS has the professional staff, experience and organization to support the increasingly sophisticated risk management needs of farmers. The services of NCIS help insurance companies position themselves to meet the needs of the farm community.

Industry applauds the Reform effort to explicitly recognize past off-budget expenditures on ad hoc disaster programs and incorporate those expenditures into the budget for crop insurance. The following is our written testimony addressing the twelve items mentioned in Chairman Johnson's letter of April 8, 1994.

1. **Adequacy of Premium Subsidies:** This is a complex issue. The Reform Act requires actuarially sound premium rates and sufficient premium subsidy to attract farmers to purchase buy-up coverages. If the underlying rate structure is inadequate, then premium subsidies which are uniformly applied across the country will result in adverse selection in improperly rated areas. Catastrophic premium subsidy is most likely adequate since loss ratio experience at 50% level coverage is acceptable. However, the subsidies at higher coverage levels must take into account the actuarial history of state/crop combinations with unfavorable experience. At current MPCl rates, several state/crop combinations, such as Midwest corn and soybeans, appear actuarially sound. Wheat and cotton experience in various states is not satisfactory. Several minor crops also have unfavorable loss ratio experience. The private industry, with our historical experience and knowledge of crop insurance rating, would be willing to participate more actively with the FCIC in resolving this complex issue.
2. **Processing Fee:** The processing fee of \$50 per crop per county (maximum of \$100 per producer) would probably cover minimum enrollment requirements. However, establishing an individual APH database, processing acreage reports, performing mandatory inspections and ensuring other USDA program compliance would cost more than the suggested \$50 processing fee. For example, in 1992 there was approximately \$760 million of gross premium. At an administrative expense reimbursement of 26% (31% less loss adjustment expense of 5%) and approximately 689,000 policies with premium, the average enrollment and processing cost per policy is estimated at approximately \$280. ASCS/FSA will also incur the same basic costs as industry.
3. **Mandatory Linkage:** Mandatory linkage, although not desirable in an insurance program, would provide the necessary program participation in order to make crop insurance a more workable system. The habitual practice of ad hoc disaster payments provides a tremendous disincentive for farmers to seriously consider crop insurance enrollment as a much needed risk management tool (see GAO/RECD-92-25 Crop Insurance).
4. **Dual Delivery:** Industry has indicated a willingness to work with USDA for dual delivery but additional government costs will be incurred. Initially, the private sector's delivery systems (computer systems, manuals, training, and staff) will have to be duplicated for ASCS/FSA delivery. This will be a tremendous start-up cost to the government. In the long run, it may cost the same or more to deliver MPCl through ASCS/FSA as through the current delivery system. Currently, private sector delivery is a variable cost to the government. Under dual delivery, certain crop insurance program costs would become a higher fixed government expense.
5. **Actual Production History:** Industry and FCIC have jointly worked on the improvement of the APH process. Four-year modified APH is the most recent attempt to meet the risk management needs of the American farmer and simultaneously achieve actuarial soundness. Modified APH encourages farmers

to provide their own records which should result in better individualized coverage. Several years of experience are needed before this system can be properly evaluated. Thus, only minimal changes should be considered until sufficient data has been obtained.

6. **Noninsurable Crops:** Enrollment and processing will be a major hurdle at first. In the long run, government will be in a better position to determine the risk exposure of the agricultural production sector and provide the necessary resources required to manage the system. As experience data and information become available, noninsurable crops can be incorporated into the existing MPCl program. However, careful screening criteria should be in place before transferring noninsurable crops to the insurance program.
7. **Likelihood of Ad Hoc Disaster Assistance:** Present budget pressure and the language contained in the Reform Act would suggest the likelihood of future disaster assistance is small. Historically, assistance has been routinely provided and the credibility of the crop insurance program has been seriously damaged. Industry stands opposed to the provision of ad hoc disaster assistance if crop insurance is to be a viable risk management tool for the American farmer.
8. **Expense Reimbursement Formula:** When establishing rates for other lines of insurance, state regulators typically allow an allocation for expense of doing business, provision for underwriting gain, and the loss component of the rate. Currently, FCIC provides an administrative expense reimbursement to the company and a subsidized loss component of the rate to the farmer. There is no formal provision for an underwriting gain in the current program other than the portfolio management of the Standard Reinsurance Agreement (SRA). In the past several years, the administrative requirements of the program have increased substantially without any consideration of the additional costs imposed on companies.
9. **Competitive Rating:** The social dimension of the program coupled with FCIC's control over the actuarial and underwriting functions do not make competitive rating a prudent practice for the industry at this time. At an historical loss ratio of 1.47 (not including 1993 experience which is presently at 2.18), it is unclear at this time how the competitive rating provision to lower the rates charged to farmers would be consistent with the targeted loss ratio of 1.10. Suggesting that companies lower the rates charged to farmers would also be inconsistent with concerns over solvency in our industry as well as other lines of private insurance. Competitive rating could jeopardize companies' fiduciary responsibility with the private reinsurance community. The existence of private reinsurance is a critical component of the private delivery system. Private reinsurance represents a sizeable cost savings and transfers substantial risk from the government to private industry. Private companies must have a reasonable opportunity for gain to attract the necessary capital to support the program.

10. **Non-Standard Classification System (NCS):** NCS is an important first step in correctly underwriting individual insureds who are potentially abusing the program. The system has been modified to correct for area wide disasters but further improvements are still required. Only 3.6% of insureds are currently impacted by this program.
11. **Group Risk Plan:** Although the GRP may achieve certain public policy goals and may have a place in covering certain noninsurable crops, it is not based on standard insurance principles and practices. GRP has met some resistance from state regulators and consumers. Industry has expressed concerns to FCIC over the rating and implementation of this program.
12. **Market Value Protection Plan:** The MVP program represents a breakthrough in allowing private industry to introduce creative solutions to meet the risk management needs of producers. The MVP product combines both yield and price risk. MVP better enables the farmer to manage his risk by using the market to provide a price for his crop that may not be possible at harvest-time. The combination of MPCP/MVP allows the farmer to fully forward price his production with insurance protection. We encourage FCIC to continue to work with private industry to find other ways and solutions to meet the changing risk management needs of America's farmers.



CROP INSURANCE RESEARCH BUREAU, INC.

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Testimony of

Thomas A. Rudisill, CPCU, Chairman

Crop Insurance Research Bureau, Inc.  
Overland Park, Kansas

Before the Subcommittee on Environment, Credit and Rural Development  
Committee on Agriculture  
U.S. House of Representatives

Regarding the Federal Crop Insurance Program

April 21, 1994

Mr. Chairman, the Crop Insurance Research Bureau, Inc., ("CIRB") is a national trade association representing 34 companies that provide multiple peril and crop hail insurance to the nation's farmers. I appreciate the opportunity to share with the committee our views on the future direction of the Federal Crop Insurance Program, and particularly, our thoughts on H.R. 4217, the Administration's crop insurance reform proposal put forward by Secretary Espy last month.

Coupled with the positive changes put into the program last year through the budget reconciliation legislation, Secretary Espy's proposal gives us a measure of hope that for the first time in recent years, we as private insurers can get on with what we do best -- providing a comprehensive risk management tool to the agricultural producers of this country -- without continually looking over our shoulders for the specter of federal ad hoc disaster payments. Conceptually, the Administration's reform proposal is acceptable to us, but there are a number of bothersome aspects that must be addressed before it can be successful.

For many years, CIRB has actively supported an actuarially sound federal crop insurance program, delivered by the private sector and backed with federal catastrophic reinsurance. We believe that the involvement of both small and large risk-bearing entities is critical to its success. In addition, CIRB strongly supports private crop-hail insurance and opposes any legislation that might negatively impact this successful insurance product. Finally, CIRB has long supported the elimination of Congressionally-authorized ad hoc disaster payments because as has been painfully demonstrated over the past six years, from both a policy perspective as well as a fiscal standpoint, crop insurance cannot co-exist with ad hoc disaster payments.

While we clearly have concerns with some portions of the Secretary's proposal -- such as the continuation of the dual delivery system, the application of individual yields and actual production history on the low-level catastrophic coverage and the ability of our companies to adequately service producers who choose only the low-level coverage option - - we are cautiously optimistic that CIRB companies could operate under this new system. We pledge to work with you and your subcommittee to insure that the final legislation both provides producers with the risk management options they need and allows our companies to provide the tools to achieve that goal -- at an affordable cost to the American taxpayer.

Two components critical to the success of this proposal are the willingness of Congress to forgo future ad hoc disaster payments and full funding of the federal crop insurance program through the shifting of \$1 billion annually from off-budget disaster spending to the crop insurance program. In the face of a continuing real decline in federal farm program expenditures, providing risk protection through crop insurance is the most responsible public policy option. Given the many problems associated with applying the "Pay-As-You-Go" requirements of the Budget Act to disaster funding, moving a portion of

the money on-budget to fully fund the crop insurance program makes good sense. However, without full funding of this program, it will have little chance of success. The funding issue is the key element of this proposal. If this legislation were to become law without sufficient funding, it would place the crop insurance program in imminent danger.

Mr. Chairman, you and the members of your subcommittee have voiced strong support for an end to the current schizophrenic two-track insurance versus disaster system and we urge you to continue your support.

I would now like to highlight a few of CIRB's specific concerns with the Secretary's crop insurance reform proposal:

- **Dual Delivery System** - While the goal of the proposed legislation is to eliminate ad hoc federal disaster payments and to encourage producers to actively manage their risks, the Farm Service Agency may not be the best source of information to allow producers to best assess their true risk management needs. Should a dual delivery system be created, Congress must insure that FSA employees are adequately trained. Without a clear understanding of the various insurance options available, serious problems could arise if a disaster strikes and only a minority of producers "buy up" to the 65% or 75% level of coverage. **We prefer to see producers come to professional insurance agents, who are well prepared to explain these various insurance options and provide quality service after the sale.**
- **Actual Production History** - As we understand the Secretary's proposal, actual production history ("APH") would be required both for the catastrophic level as well as for higher coverage levels. Given the time and paperwork required to provide and report that information, **for the sake of reducing cost and complexity, catastrophic coverage should be based on the ASCS yield as adjusted by FCIC (T-yield).**
- **Effective Date** - The Secretary's proposal calls for an effective date of the crop year immediately following approval of the Act. Should this proposal become law in the next few months, both private companies and FCIC would be under tremendous pressure to make the new product available for this fall's crops. **Given the importance of this initiative and the amount of time**

and effort spent to develop this proposal, the effective date should be postponed to insure that federal employees are well trained and that companies and agents have the materials necessary to make this program succeed. An artificially expedited start-up date could become a disaster in itself.

- **Flexibility in Required Risk Retentions** - The Secretary's proposal requires reinsured companies to bear a sufficient share of any potential loss ... so as to insure that the reinsured company will sell and service policies of insurance in a sound and prudent manner. However, the proposed 1995 SRA will make it extremely difficult, if not impossible, for a number of private providers to continue their participation in the program. This in turn, will take away an important element of choice for producers. **As companies agree to assume increased risk of loss, there must be a commensurate potential for profit in a program actuarially based on a loss.**
- **Catastrophic Expense Reimbursement** - For the catastrophic level coverage, the Secretary's proposal provides for a \$50 - \$100 processing fee, and in the event of a loss, \$150 to adjust the loss. **The required effort on the part of the agent coupled with the true cost of adjusting the loss will likely relegate virtually all of these "catastrophic - only" contracts to the federal government.**

In summary, Mr. Chairman, CIRB supports the efforts of this subcommittee and those of Secretary Espy to rationalize the risk protection functions of the federal crop insurance program. We believe that the Congress has a golden opportunity this year to make this program work for both producers and taxpayers. The participation of national, regional and single-state operations is essential for the crop insurance program to grow and improve. The private sector simply must have the opportunity for a fair return. A fair 1995 SRA coupled with the best aspects of crop insurance reform will assure continued private sector involvement.

As you and your staff work through the complexities of this proposal, I would like to offer you the expertise of the many experienced crop insurance specialists from our member companies as we work toward our common goal. Thank you.

April 19, 1994

The Honorable Jim Sasser  
Chairman, Senate Budget Committee  
United States Senate  
Washington, DC 20510

Dear Chairman Sasser:

In your role as Chairman of the Senate Budget Committee, the undersigned organizations and the thousands of farmers and ranchers we represent urge you to fully fund the Administration's budget request for its crop insurance reform proposal during your conference on the Fiscal Year 1995 Budget Resolution. While we may not all agree on every detail of the proposal and will be working to improve the package, we stand unanimously behind the provision of funding for the package and believe that it warrants your support.

In standing behind the fundamental concept of providing a low level of catastrophic coverage to all farm program participants, we are taking a bold step which many of us have previously been unwilling to take. However, given the continued budget pressures facing all government programs and the policy reasons favoring an insurance approach to disaster relief, we believe the time is right for change and for committing to a single predictable approach to disaster relief.

The Administration's approach reflects truthful budgeting, budget discipline, good public policy, improved risk management options for farmers, and reduced costs for taxpayers. The \$1 billion being requested is actually conservative due to the fact that over the last six years, ad hoc disaster bills have cost the American taxpayer \$1.575 billion annually. We believe the House Budget Committee took a historic step by providing approximately \$3 billion in additional funds for the crop insurance baseline. We hope that the conference committee will lend its leadership to this effort by providing the full Administration request of \$4.5 billion over five years.

Thank you for your consideration of this issue. We look forward to the Conference Committee's positive action on this proposal.

Sincerely,

American Agriculture Movement  
American Soybean Association  
National Association of Wheat Growers  
National Corn Growers Association  
National Cotton Council of America  
National Farmers Organization  
National Farmers Union  
U.S. Rice Producers Group  
cc: House and Senate Budget Conferees





# AMERICAN ASSOCIATION OF NURSERYMEN

1250 I STREET, N.W. / SUITE 500 / WASHINGTON, D.C. 20005 / 202/789-2900

TESTIMONY  
Before the  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT, AND RURAL DEVELOPMENT  
April 21, 1994

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Mr. Chairman, and Members of the Subcommittee, the American Association of Nurserymen (AAN) welcomes this opportunity to present the nursery industry's views regarding legislation to reform the federal crop insurance system.

## BACKGROUND

Founded in 1875, AAN is the national trade organization of the nursery industry. We directly represent approximately 2,300 growers, landscape professionals, garden center retailers and horticultural distributors. Through the membership of our state and regional nursery and landscape associations, AAN represents an additional 16,000 family farms and small businesses in the nursery industry.

## ECONOMIC STATURE OF NURSERY INDUSTRY

According to USDA's Economic Research Service (USDA-ERS), the nursery and greenhouse industry continues to outpace other agricultural sectors in cash receipts. Nursery and greenhouse crops totaled an estimated \$9.0 billion in 1993 -- representing nearly 11 percent of the total cash receipts for all U.S. farm crops.

Nursery and greenhouse crops in 1992 ranked 6th in total grower cash receipts among all farm commodities -- ahead of such major crops as wheat, cotton and tobacco. Nursery and greenhouse crop production now ranks in the top five agricultural commodities in 23 states, and in the top 10 in 42 states, including 13 of the states represented by Members of this Subcommittee.

This impressive industry record of growth becomes even more so when one considers that unlike other segments of agriculture, the nursery industry does not receive -- nor does it desire -- any federal subsidies or price supports. What we do want is for the unique nature of nursery crop production to be fully recognized as part of agriculture and for this recognition to be reflected appropriately in any reform of the federal crop insurance program.

### NURSERY CROP PRODUCTION

Nursery crop production is a unique segment of agriculture, but it is agriculture nonetheless. Unlike farming operations of many of the "major" commodities, most nursery crops are not harvested in the same year in which they are planted. Moreover, although they may be planted at the same time, not all such nursery crops are then harvested at the same time.

As with other agricultural crops, nursery stock is generally planted in rows -- either in the ground or in containers -- and is cultivated by farm equipment similarly used by other farmers. Most nursery farms grow hundreds of different varieties of plant species which often require individual attention, so the labor activity can be more intensive than other agricultural crops.

As an example of the unique nature of growing nursery plants, let's examine the production of ornamental evergreen trees. Some types of evergreens are first propagated from cuttings in a greenhouse. Others are propagated from seed. After several months in the greenhouse, the rooted cuttings (some of which may be sold to other nursery farms) are planted in beds, usually for two more years. These three-year old cuttings (some of which again may be sold to other nursery farms) are then transplanted in fields or in other containers and cultivated for as many as four or five additional years until the trees begin reaching various marketable sizes. As other examples, rhododendrons may be grown for four to six years or more before they reach marketable sizes, and landscape specimen shade trees may be grown for ten years or more.

Seldom does a nursery farmer sell an entire "crop" in any given year. For example, evergreens planted in the field at the same time will not contain trees of uniform size. This is due, in part, to each plant's individual rate of growth, or perhaps to variations in soil quality in different parts of the field. As a result, when a nursery grower receives an order from a retail garden center or a landscape firm for ornamental evergreens of a given size, the order may be filled out of several fields of trees of varying ages.

As with other agricultural commodities, nursery crops are subject to insects, pests, and diseases. Unlike most other agricultural crops, nursery plants are often shipped with soil attached. Since soil increases the likelihood of harboring pests, a variety of federal and state certification and quarantine shipping requirements are imposed on nursery growers to prevent the spread of such pests to other agricultural crops even when such pests are not directly injurious to nursery plants.

### THE FEDERAL CROP INSURANCE SYSTEM NEEDS TO BE OVERHAULED

Since many nursery crops often take several years in the field before they are ready for harvest, nursery farmers endure wide weather swings and patterns over a multi-year period. In any given year, nurserymen may lose farmgate sales of tens of millions of dollars in plant material destroyed by the vagaries of nature.

Nursery farmers traditionally absorb these losses and treat them as costs of conducting business. The weather patterns of freezes and droughts are often unpredictable. The toll is obviously heavier and more costly in some years than in others. As noted earlier, the nursery industry does not receive any federal production subsidies or price supports, and we desire as little government interference as possible. In turn, nursery farmers have historically not looked to the federal government for direct federal assistance.

Given the nursery industry's strong and continuing aversion to turning to the federal government for direct financial assistance, there is, nonetheless, an important mechanism by which the federal government can partner with the nursery industry. It is one in which the nursery industry, and the rest of agriculture, could pay its fair share. AAN recommends that the availability of federal crop insurance be broadened to all agricultural crops, and that its purchase by farmers be made more economical. We are pleased that H.R.4217, the "Federal Crop Insurance Reform Act of 1994," introduced on April 14, 1994 by House Agriculture Committee Chairman Kika de la Garza and the Chairman of this Subcommittee, Rep. Tim Johnson (D-SD), largely embraces AAN's position.

The availability of federal crop insurance to the nursery industry is severely limited. In part, this is due to the often multi-year production periods for most nursery crops, as well as the tremendous diversity of nursery crops. Even in those limited instances where crop insurance is available to nursery farmers, the premiums are excessive and unaffordable. By universally broadening federal crop insurance to all agricultural crops, costs can be pooled and risks can be spread more effectively. Only when federal crop insurance is available to nonprogram crops, such as container and field-grown nursery crops, will the insurance system succeed in attracting a sufficient pool of farmers and growers so that costs can be spread more widely and the premiums can be more economical.

Current USDA disaster assistance programs can unintentionally

reward marginal farmers who, if only they were to change some of their management practices, could mitigate or even avert some of their crop losses. By the same token, current USDA disaster programs are often off-limits to strong and innovative farmers who make investments in their operations (such as implementing irrigation systems to combat droughts) in often successful efforts to minimize crop losses. Federal crop insurance premiums could reflect such investments and management practices.

Crop insurance for nonprogram crops would strengthen the financial position of the insured in dealing with freezes, droughts, and other reasonably anticipated and periodic weather swings and patterns. Crop insurance can act as collateral on loans, and lowers the risk factor enabling lenders to offer better terms or larger loans.

Universally broadening the federal crop insurance system to all agricultural crops, and making such more economical, would present potential budgetary savings. It would mitigate the need for Congress to continuously find itself year-in and year-out having to appropriate huge sums of federal dollars to USDA disaster assistance programs, which, unfortunately, have often been outright grants to marginal agricultural producers.

AAN strongly urges Congress to pursue the goal of universally broadening the availability of federal crop insurance to all agricultural producers for all crops, and making the premiums more economical. H.R.4217 is a positive first step in this direction. AAN recommends that an overhauled federal crop insurance system should cover reasonably anticipated weather swings and patterns (such as freezes and droughts) which damage or destroy agricultural crops. In so doing, USDA disaster assistance programs could then be revamped to help restore farmers' lost income due to catastrophic disasters, such as 1992's Hurricane Andrew or last summer's severe Midwest floods, for which crop losses could not be averted no matter what precautions are implemented by farmers.

#### H.R.4217 MUST BE AMENDED TO EXPLICITLY COVER NURSERY CROPS

AAN understands that nursery crops -- both container and field-grown -- are included on the official crop expansion feasibility study list for the development of new crop insurance programs. AAN applauds this review of container and field-grown nursery crops for inclusion as "eligible crops." At the same time, though, we are deeply disturbed that section 4 of H.R.4217 (which proposes a noninsured assistance program for crops for which catastrophic risk insurance is not available) is limited to

food and fiber crop production. We are concerned that if such limiting language is included in any final legislation, it will work against the insurance eligibility of nursery crops.

Since nursery crops are neither food nor fiber, the proposed eligibility coverage in section 4 of H.R.4217 effectively excludes nursery farms or production nurseries -- creating a wholly inappropriate and artificial wedge between the nursery industry and the rest of American agriculture. H.R.4217 must be amended to explicitly cover nursery crops (and other non-food or fiber crops, such as sod) as eligible for insurance.

#### CONCLUSION

Mr. Chairman, AAN deeply appreciates this opportunity to share our thoughts about reforming the federal crop insurance program in general, and H.R.4217 in particular. We hope Congress will work to overhaul the federal crop insurance system by universally broadening its availability to all agricultural crops, including nursery plants and trees, and by making the purchase of crop insurance by farmers more economical.

AAN also urges that crop insurance premiums reflect the investments and management practices made by strong and innovative farmers to mitigate their crop losses. By overhauling the federal crop insurance system, USDA disaster assistance programs could be revamped to help restore farmers' lost income due to truly catastrophic disasters, for which crop losses could not be averted no matter what precautions are implemented by farmers.

As always, Mr. Chairman, AAN is willing and ready to work with you, the Members of this Subcommittee, the Federal Crop Insurance Corporation, and USDA to make the federal crop insurance system more equitable and available to nursery farmers. Thank you.



**Testimony of Terry N. Barr  
Chief Economist  
National Council of Farmer Cooperatives  
Before the  
Committee on Agriculture  
Subcommittee on Environment, Credit and Rural Development  
Thursday, April 21, 1994**

Mr. Chairman, my name is Wayne Boutwell. I am testifying today on behalf of the National Council of Farmer Cooperatives (National Council). The National Council is a nationwide association of cooperative businesses which are owned and controlled by farmers. Its membership includes over 100 agricultural marketing, supply and credit cooperatives, plus 32 state councils. National Council members handle practically every type of agricultural commodity produced in the U.S., market these commodities domestically and around the world, and furnish production supplies and credit to their farmer members and patrons. The National Council represents about 90 percent of the nearly 4,500 local farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

Mr. Chairman I would like to begin my testimony by commending you and the members of the committee for holding these hearings. It seems that every day the farmers of this country are being advised to prepare for change from another source. New sources of change include global competition, environmental and conservation regulations, food safety regulations, new biotechnologies, and a rapidly changing information technology. All of these changes bring new risks in addition to the already present price and production risk.

For decades farmers focused on enhancing their production skills. In the 1970's and 1980's farmers were told to also enhance their marketing skills. The focus into the next century will be managing risk from a growing array of sources. The subject of this hearing is one of the steps toward assisting farmers to manage their risk.

I am not sure there is much that can be said about Federal Crop Insurance that has not been said since the Federal Crop Insurance Act of 1980 was signed into law. The goal at that time was to replace disaster assistance programs with an expanded and improved crop insurance program. The program was to run on an actuarially sound basis and to rely, to the maximum extent possible, on the private sector for delivery, service, and claims adjustment.

Since that time we have had a steady stream of studies, reports, Commissions and hearings. The objective remains the same and we have 14 years experience with what will not work.

The members of the National Council of Farmer Cooperatives support the repeal of ad hoc disaster assistance authority and the implementation of a catastrophic crop insurance coverage as a supplement to the Federal Crop Insurance program. To ensure wider participation, crop insurance at the catastrophic level should be linked to participation in Federal commodity support programs and Farmers Home Administration loans.

To be successful this merger of disaster assistance and Federal Crop Insurance must be adequately funded. Unless the funding issue is resolved it is unlikely that the necessary merger could be carried out. Most importantly, do not permit this merger to proceed without an adequate level of funding. This program evolution has been underway for 14 years and it is important that we not have another failed experiment.

With respect to specific issues, I would like to make a few observations. First, it is clear to our membership that the "devil is in the detail". The translation of all of the issues under discussion into premiums, coverage and delivery will ultimately determine the success of the program. I have seen extensive discussion on modifications to the existing programs, but no one has translated those modifications into premiums across the various commodities and regions. It would be useful if premium assessments could be prepared on alternative choices. Ultimately the farmer will decide whether the premium reflects the value of the coverage.

Secondly, please remember that the farmer is the customer and if you want a viable program it must serve the needs of the farmer. The administrators and agents may design a successful program from their viewpoint but it is the farmer and his risk management needs that must be served.

Let me make a few closing comments on several issues:

- a) **Dual Delivery System** - The objective of moving the program into the private sector at some time in the future must be maintained. From the producers standpoint the more quality sources a farmer can utilize to obtain risk management alternatives the better he will be served. While the Farm

Services Agency may be a source for catastrophic coverage it cannot offer risk management planning in addition to all of its other duties. Producers should be encouraged to seek professional risk management advice when they are enrolled in the catastrophic coverage. However, no matter what the source, the minimum coverage should be available for an affordable fee established by the proposed reforms. We should be seeking to broaden the delivery system not to narrow its focus to existing distribution networks.

With respect to coverage levels, FCIC should evaluate providing additional levels of coverage higher than the 75 percent level.

- b) **Provisions for Non-insurable Crops** - With the elimination of disaster assistance programs, a large number of currently non-insurable crops now come under Federal Crop Insurance in the event of a disaster. Additionally, many covered commodities have not been active participants in the crop insurance program in all areas of the country. The National Council would encourage FCIC to work closely with those industries in establishing an information system upon which to base any disaster assistance.
- c) **Industry Competition** - The effectiveness of crop insurance reform will be greatly enhanced by encouraging greater competition in rates and services in the private sector. The market for risk management alternatives is expanding rapidly with greater use of futures, options etc. The integration of crop insurance into the array of services will facilitate its emergence as a risk management tool.

The members of the National Council strongly support efforts to develop an effective and efficient Federal Crop Insurance Program. We look forward to working with the members of the committee on this important issue. Thank you, Mr. Chairman.

## *Dakota Rural Action*

Box 549 • Brookings, South Dakota 57006 • 605-697-5204

### **Testimony, Dakota Rural Action Before the U.S. House of Representatives Committee on Agriculture Subcommittee on Environment, Credit and Rural Development April 21, 1994**

Dakota Rural Action (DRA) is a grassroots, membership based organization located in South Dakota. We have over 500 members who have organized together to achieve and create a sustainable society which will guarantee freedom and justice for future generations. One of our long term goals is to address the man-made disaster of farm policy in part by reforming federal crop insurance and changing the federal disaster program. We would like to make some suggestions on the proposal to reform federal crop insurance which is before this subcommittee.

In the simplest terms, family farmers want a federal crop insurance program which is simple, offers real protection against disaster and is affordable. Too often the current system offers little or no protection at a price which makes it a foolish choice for farmers to purchase.

We understand that one of the first purposes of this proposal before you is to reduce the FDIC's loss ratio from where it is now to 1.1. We as tax payers would also like to see the cost of the program reduced but we warn you that it is necessary to build a program which offers a good product to the customers, the farmers.

1. We support the proposal plans to use actual production history (APH). This will allow producers to base their coverage on the history of their farm and their farming techniques. Instead of using yields which have been locked in for years, the yields will roll with changes in farming techniques and with changes in land ownership.

However, we believe recording a disaster yield for farmers who have experienced a natural disaster is unfair. We support a system in which a farmer may substitute the county average or a previous year's APH yield in place of the disaster for a year during which they experienced a natural disaster. This will help keep farmers from being penalized for occurrences which were beyond their control. As farmers we would love to stop these acts of nature when they occur and never collect crop insurance, but we can't and we shouldn't be penalized by having to include disaster years in our production history.

This change will also help insure that people participate in the new federal crop insurance program. The plan to increase farmer participation by linking federal crop insurance to the farm program participation may fall short of expectations because many farmers are talking about dropping out of the farm program due to new restrictions on program participants and reductions in benefits from the farm program. The new federal crop insurance has to be a quality product which will sell on its own merits.

2. More than four levels of crop insurance should be offered to insure that producers have the maximum amount of flexibility. Some farmers will be willing to pay more for a higher level of coverage. A 100 percent coverage level should be offered for those farmers who would like this kind of protection. This could be an option for farmers having trouble finding financing for spring planting. With 100 percent insurance, a farmer could walk into the bank with his policy and use it as collateral for an operating loan. At 100 percent coverage, federal crop insurance would work like hail insurance. Hail insurance allows a farmer to buy a dollar amount of

coverage paying for it at a set premium level. For example a farmer may buy \$100 an acre coverage for \$8 an acre or \$150 an acre coverage for \$12 an acre. The benefits and costs are clear, easily understood and dependable. Payments are based on percentage of loss. If a farmer covered for \$100 an acre receive a 50 percent loss, the insurance will pay \$50.

3. Another benefit of hail insurance is its simplicity. Federal crop insurance should be simple so the customers know what they are buying. We need to get rid of confusing percentages and useless quirks in the program. For example, the "T yield" is a term with only one purpose, to make the program confusing. Instead of taking percentages of yields and giving it a new name. Find one of the many yields already being figured by farmers and government agencies and use it. Farmers have a lot of work to do and the time spent trying to figure out how much they are covered and when they are covered, could be used more productively. In fact many farmers don't have an exact idea about what their crop insurance coverage is until they have a loss.

4. The \$50 per crop processing fee for the catastrophic level of crop insurance is simply a subsidy for large farmers. A farmer with 1,000 acres of wheat would pay 5 cents an acre while a farmer with 100 acres of wheat would be paying 50 cents an acre for the same coverage. This should be changed so everyone pays a per acre fee for the coverage. Even though this fee is proposed to be something other than a premium it still acts like an insurance premium and the small producer ends up on the short side.

5. The payment level for prevented planting should be raised to 65 percent instead of 50 percent. Last year, a lot of farmers got everything into the ground except the seed. This includes expensive items like fertilizer, herbicide and in some cases insecticide. Under the proposed plan all these farmers would have qualified for is the low coverage level of prevented planting. This low coverage will not prevent farmers from going to great extremes like flying on their seed to qualify for their higher level of insurance and recapture the costs of the inputs.

#### **Disaster Reserve Proposal**

DRA and the National Family Farm Coalition (NFFC) would like to propose an expansion of the Farmer Owned Reserve and make it a true disaster reserve program where farmers raise grain on land that would have been set-aside or take a percentage of their production for storage until a disaster year. We would like the program to include a storage payment at the current farmer storage rate which will help farmers put up the additional storage they need for the reserve. The farmer would have to document the loss and have it verified by ASCS. The grain would only be released from storage on a documented loss by a single producer or in the case of a county-wide disaster. They then would be able to substitute this grain for lost crops.

We propose that this "self-insurance" program be offered in place of part of the administration's crop insurance reform program. We would propose that the disaster reserve be put in place at the 65-70 percent production level. The farmer could still purchase insurance to cover their initial losses before the 65 percent level.

The disaster reserve could help both diversified farmers with livestock as well as those without. Livestock farmers would have enough grain in their bins to feed their livestock and wouldn't need a disaster payment. They could have fed their animals with high quality grains, keeping the rate of gain high and marketing them on time. Quality feed in a disaster year is worth more than a disaster payment which can only buy poor feed.

Grain farmers will receive the benefit of having quality grain to market in a disaster year. The local economy would also benefit because this grain would be sold locally the same as it would in a good year. Elevators and main street businesses will all benefit. With today's programs, farmers get a check from one government agency and sign it over to pay debts held by another government agency.

We appreciate this opportunity to present written testimony on these issues.





## AMERICAN SOD PRODUCERS ASSOCIATION

An International Organization Dedicated to Advancement of the Turfgrass Sod Industry

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## STATEMENT OF AMERICAN SOD PRODUCERS ASSOCIATION TO THE HOUSE SUBCOMMITTEE ON ENVIRONMENT, CREDIT AND RURAL DEVELOPMENT

### Regarding H.R. 4217 - Proposal to Reform Crop Insurance

Presented by Douglas H. Fender  
Executive Director  
American Sod Producers Association

April 21, 1994

Mr. Chairman and members of the Subcommittee, my name is Douglas H. Fender and I am the Executive Director of the American Sod Producers Association. We appreciate the opportunity to submit a statement regarding the availability of crop insurance for specialty crops like turfgrass sod.

The American Sod Producers Association (ASPA) is a 26-year old, not-for-profit association with members in 49 states in the United States, Canada and 25 other countries. ASPA consists of over 600 turfgrass sod farm operations that produce approximately 80 percent of the acreage sold each year in the U.S. ASPA represents its members on federal issues of importance. Crop insurance and disaster relief assistance are significant concerns to ASPA's membership.

We want to preface our statement by commending the Administration and the Subcommittee for their efforts to provide farmers with a rational policy on the availability of federal crop insurance. Moving away from reliance on federal disaster relief measures and toward crop insurance makes fiscal as well as practical sense. However, Congress should recognize that an effective and equitable crop insurance program must, at a minimum, provide protection for the same agricultural commodities as presently are entitled to disaster relief assistance. Turfgrass sod is currently entitled to disaster relief assistance under the terms of the 1990 Farm Bill. Prior to the Farm Bill, however, turfgrass sod was excluded because of definitional ambiguities in USDA assistance programs.

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Legislation to expand crop insurance as an alternative to ad hoc disaster relief legislation should ensure that turfgrass sod is included as an eligible crop. We are concerned that the language of H.R. 4217 creates some doubt regarding the eligibility of turfgrass sod and other specialty crops. As discussed below, definitional ambiguity in other USDA programs has resulted in confusion and, in some cases, the exclusion of producers of turfgrass sod from benefits to which they should be entitled as an agricultural commodity.

Turfgrass sod farmers, like those producing nursery and other specialty crops, often face challenges that other more traditional types of agricultural commodities do not. Although turfgrass sod is considered an agricultural commodity under many federal and state laws,<sup>1</sup> it is sometimes inappropriately excluded from federal benefits afforded other agricultural commodities. This is often a result of oversight or lack of knowledge about its production and harvest characteristics.<sup>2</sup>

Several statutes define the term agriculture to be "food or fiber." Because turfgrass sod typically is not considered a traditional "food or fiber" agricultural commodity, it is important for the Subcommittee to understand that turfgrass production is nevertheless a traditional agricultural activity. It is produced, cultivated and harvested in much the same manner as other more familiar agricultural commodities. As a consequence, ASPA believes that turfgrass sod farmers should have the same degree of access to crop insurance that other agricultural producers are entitled to obtain.

ASPA's members' experience with disaster assistance in the past illustrates the problems encountered in our industry and which will continue unless the proposed federal crop insurance program includes within the definition of eligible crops specialty crops like turfgrass sod.

For example, prior to the 1990 Farm Bill, turfgrass sod's exclusion from disaster assistance resulted in part because it was not considered "food or fiber." USDA officials in charge of administering disaster relief assistance felt constrained to limit relief to crops falling within that narrow definition.

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<sup>1</sup> The Departments of Agriculture, Labor, Treasury, and Commerce, as well as the Environmental Protection Agency, all have laws and regulations that define and treat turfgrass sod as an agricultural commodity.

<sup>2</sup> For example, under the Swampbuster program, producers of annual program crops lose payments from USDA for wetlands converted into cropland after 1985. In defining what is prior converted cropland for the broader purposes of the Clean Water Act, the Army Corps of Engineers borrowed the Swampbuster definition of "agriculture" which is limited to annual crops governed by the Swampbuster program. As a perennial crop, turfgrass sod, along with all other perennials, was arbitrarily denied prior converted cropland status under the Corps of Engineers definition.

Section 2244 of P.L. 101-624 (1990 Farm Bill) resolved the definitional problem in the context of disaster relief. It included turfgrass sod among the "non-food or fiber" crops determined to be eligible for disaster assistance. The 1993 disaster relief provisions necessitated by the floods in the midwest last year also adopted this definition.

As the subcommittee moves forward with legislation to reform disaster assistance and require the purchase of crop insurance, we request that it include turfgrass sod, nurseries and other specialty crops within the provisions defining eligible agricultural crops. We ask that turfgrass sod farms be allowed to participate in crop insurance in the same fashion as other agricultural crops and that USDA be given the necessary guidance to achieve that end.

We are somewhat concerned, however, by the crop eligibility provisions of H.R. 4217. Section 520 of the bill would condition eligibility for catastrophic risk protection coverage on the definition of a "person" as determined by the Secretary of Agriculture. Since eligibility will be determined by regulations issued by USDA, it is critical the legislation clarify, like the 1990 farm bill that "non-food and fiber" crops are "persons" for purposes of program eligibility.

In addition, Section 522(a)(1) of H.R. 4217 authorizes the establishment of a non-insured assistance program. Coverage would be extended to all "commercial crops and commodities for which catastrophic risk protection coverage is not available and that are produced for food and fiber." Use of the term "food and fiber" poses a problem. As previously discussed, turfgrass sod does not meet the traditional definition of "food or fiber." To avoid the problems caused in crop disaster programs preceding the 1990 Farm Bill, we strongly suggest that the definitional section of H.R. 4217 be amended to include turfgrass sod and other specialty crops within the category of eligible crops.

Notwithstanding the fact that the 1990 farm bill includes "non-food or fiber" crops within the definition of eligible crops, we raised these concerns with officials of FCIC. We have been assured by officials of FCIC that turfgrass sod will be considered eligible for crop insurance. While ASPA receives some comfort from such representations, it is preferable that the legislation clearly evidence such an intent. We respectfully request the Subcommittee's assistance to clarify the definition of eligible "persons" and the term "food and fiber." Even though FCIC presently considers turfgrass sod to be eligible for crop insurance, we believe more explicit definitions would reduce eligibility problems in application of the program.

We look forward to working with the Subcommittee as it develops legislation to reform federal crop insurance. We respectfully request the Subcommittee's help to eliminate any definitional ambiguity in the proposed legislation that might exclude turfgrass sod farmers from access to crop insurance. We will be glad to provide any additional information regarding this issue. Thank you for the opportunity to present our views.



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The National Sunflower Association (NSA) appreciates the opportunity to express its views regarding the current Federal crop insurance program and the Administration's reform proposal.

Traditionally, sunflower growers have participated in the crop insurance program and would like to rely on a program more as a risk management tool. There are several changes in the current system that would improve its usefulness to sunflower growers:

1) Coverage for Solid Seed Planting-Currently, sunflower producers wishing to solid seed (narrow row spacing) sunflowers are not eligible for Federal crop insurance coverage. NSA encourages FCIC to change this outdated policy as a growing number of producers favor narrow row spacing. Solid seed planting is easier, quicker, and cheaper than conventional row spacing. Generally, less chemicals and labor are required, and new modern drills are very adaptable to this type of seeding. Narrow row spacing is consistent with Soil Conservation Service (SCS) requirements for cover and residue. In the event of a weed problem, two post-emergent chemicals are now available to producers which control most broad leaf and grassy weeds. NSA believes that producers using the most environmentally sound and economically viable farming practices available should be eligible for Federal crop insurance.

2) Prevented and Late Planting Coverage-Prevented and late planting are currently not covered under the standard policy for sunflowers. Due to extreme weather conditions in the sunflower production regions, prevented and late planting coverage is very much needed and would improve the usefulness of the program.

3) Premium Price Selection for Confectionery Sunflowers-The National Sunflower Association believes there should be premium price selection for confectionery sunflowers. The cost of production is higher for confectionery seed, yet the crop insurance price selection is the same as for oil-type sunflowers. NSA hopes an appropriate price distinction between the two types of sunflowers seed can be made.

4) New Regions for Coverage-Planting of sunflowers is expanding Kansas, Colorado, and Nebraska. A number of counties in these states are already eligible for crop insurance. However, as the crop moves into new areas, we strongly suggest a reasonable mechanism be put in place to allow additional counties to become eligible for Federal crop insurance. The current system is inconsistent and serves to discourage the natural spread of production.

5) Program Consistency-Program policies are not always consistent from one state to another. For example, confection sunflowers planted in Colorado must be planted after fallow to be eligible for crop insurance. This requirement no longer applies in Kansas and Nebraska, and is contrary to SCS recommendations to abandon fallow. Also, this policy is discriminatory against Colorado confectionery sunflowers producers.

With regard to the Administration's reform proposal, sunflower growers generally are supportive of the basic policy and direction. We realize the need to move away from dependency on Federal ad hoc disaster programs, and hope the catastrophic coverage plan will be approved by Congress. There are several of measures included in the proposal we would like to address:

1) Coverage Levels-Coverage levels up to 85% should be available. This level of coverage would truly provide insurance for good farmers who suffer a bad crop year but do not qualify for the lower levels of coverage.

2) Prevented and Late Plantings Coverage-As indicated in our comments on the current program, prevented and late planting should be available for all crops, including sunflowers.

3) Linkage to Farm Programs-NSA does not have a problem with linking crop insurance to Federal farm programs. However, we would like to see a cap set on the administrative fee charged for catastrophic coverage. We agree a \$50 fee per crop is reasonable. However, any significant increase in the amount used for budget offsets or to raise revenue would discourage participation.

4) Group Risk Plan-The National Sunflower Association would prefer using actual production records rather than the Group Risk Plan. Sunflowers are traditionally grown in states with large counties which have diverse soils and weather conditions. The Group Risk Plan is unfair to producers who suffer disaster conditions in one portion of the county when the entire county does not incur the same problems. Under this plan, producers with the disaster-level losses would not qualify for assistance.

Again, the National Sunflower Association appreciates the opportunity to express the views and interests of our producer members regarding the Federal crop insurance program. We look forward to working with the Subcommittee as consideration of the reform proposal continues.



TESTIMONY SUBMITTED BY RANDOLPH NODLAND  
DAKOTA RESOURCE COUNCIL - NORTH DAKOTA  
TO THE ENVIRONMENT, CREDIT AND RURAL DEVELOPMENT SUBCOMMITTEE OF  
THE HOUSE AGRICULTURE COMMITTEE  
April 21, 1994

We are in support of overhauling the disaster crop insurance system. While the disaster assistance program has helped many farmers through troubled times when they have lost their crops the crop insurance program has not at all kept pace with actual yield losses.

One of the other problems is that we have had a general failure in farm policy in this country. The policy of keeping grain prices low has placed many farmers in a position of consistently being on the edge so that when a bad year comes along there is an immediate need for disaster assistance. Grain producers are receiving no more for their crops than they received 3 or 4 years ago, yet productivity costs have tripled or quadrupled in that time. It now takes 15-20,000 bushels of wheat to purchase a medium size tractor that could be bought for 5 thousand bushels of wheat 30 years ago.

We do believe that there is a continued need for federal disaster assistance. We support a program where farmers can help provide their own insurance through a bushel-based disaster reserve for losses not covered by the catastrophic disaster assistance.

The disaster reserve would work somewhat like the farmer owned reserve, except it would not be eligible for CCC loans or marketing until the farmer had yield losses below the normal yield. The farmer would then apply to the ASCS for release of enough bushels to cover their losses.

The grain for this disaster reserve has to come from somewhere. Given the current state of farm production costs and the farm economy, it is unrealistic to assume that farmers would "donate" to the reserve from their normal production base. We support a bushel based program or acreage set-aside program to have some mechanism of establish a level of production that meets real needs. Allowing full production for the sake of exporting a lot of grain at below cost of production. It only ensures that many farmers continue to remain below the poverty line.

We support a program where the farmer would be allowed to grow crops for the disaster reserve on what would have been set-aside acres or to develop a percentage of overall production that could be produced on other acreage. This grain would be isolated from the market. It should not be used as a club to drive down grain prices. When a producer has built up the reserve to reasonable level, for instance, enough for a total year's loss or at least enough to cover losses not covered by disaster assistance. The set-aside should revert back to a conservancy use to be kept in reserve for future use.

A program like this would help create a stable supply. When a major disaster strikes U.S. farmers, such as the 1988 drought, or the floods of 1993, the grain in the disaster reserve would ensure that consumers would not be hit with shortages and farmers would have grain to sell.

At the very least the disaster reserve program should be offered as an option to crop insurance to farmers. The grain in the disaster reserve should be eligible for rollover each year to insure it remains in good condition. Storage payments should be paid on the grain and a cost-share to cover the costs of building storage facilities.

We urge that you include the disaster reserve concept as part of the Federal Disaster and Crop Insurance program.



# TEXAS WHEAT PRODUCERS ASSOCIATION

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March 28, 1993

The Honorable Larry Combest  
Member of Congress  
Field Information Session  
Lubbock TX

Dear Congressman Combest:

On behalf of the members' of the Texas Wheat Producers Association (TWPA) I would like to thank you for your leadership on crop insurance reform. I have had an opportunity to discuss the crop insurance reform proposal within our organization as well as with board members of the National Association of Wheat Growers. The following is a condensed version of the concerns, comments and questions that were expressed.

First, TWPA is unwilling to step away from standing disaster authority. We recognize that while some firewalls against future disaster bills may be needed to fund reform, but the best way to prevent the need for future disaster legislation remains an adequate, workable, affordable crop insurance program.

The change to the new, more aggressive APH formula has not been without pain. Whether a reform package moves through Congress or not, the highest priority for FCIC should be to develop and implement a catastrophic yield clause to put the brakes on yield declines for producers with multiple catastrophic losses. At the same time, the decision to base catastrophic yield coverage from individual APH yields as opposed to county average yields is a vital and important component of the current reform package.

Another issue which must be addressed whether or not there is a reform package is the need for a de minimus yield clause. The lack of a de minimus yield clause for small grains continually makes a mockery of MPCI coverage when farmers with 100% losses have their payment reduced by 2 or 3 bushels an acre because an adjuster has appraised the yield at that level. This inequity is further exacerbated by ASCS having a de minimus policy while crop insurance continues to lack such a clause.

TWPA understands the desire and pressure for FCIC to expand coverage to new crops. However, we don't want to see limited resources spread too thin while the program is still inadequate to meet the needs of the seven commodities that comprise 75% of the existing crop insurance business and most of the potential business. One of the first issues FCIC should explore would be to develop a seed wheat policy for producers raising high-value seed wheat. These producers tend to be very low risk with adequate production records however, they may not utilize crop insurance due to inadequate price protection compared to the higher value of their crop.

The 1995 FCIC Small Grains Policy, Federal Register, Sec. 6 provides ... for early termination of acreage to be grazed, or destroyed by other means. If such acreage is damaged to the extent a loss is payable, a claim can be filed and paid before destruction

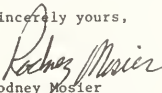
The Honorable Larry Combest

Page two

for ASCS. Full premium will be due on this acreage. If no claim is payable on such acreage, the premium will be reduced and the acreage can be disposed of, by any means, and reduced at ASCS. It is important to Texas wheat producers that the above provisions remain in any future revision and final language for FCIC provisions.

Thank you for advancing the reform proposal, many of the items in this letter are long-standing concerns that can be addressed independently of crop insurance reform. TWFA looks forward to working with you on the reform package. Additional questions are being submitted for your attention and review by FCIC.

Sincerely yours,

  
Rodney Mosier  
Executive Assistant

From: TEXAS WHEAT PRODUCERS ASSOCIATION

FEDERAL CROP INSURANCE CORPORATION

REFORM QUESTIONS

1. The reform proposal book contains examples of disaster and crop insurance comparisons for corn, cotton and soybeans. Will FCIC run the same comparisons for wheat?
2. Can existing policy holders get catastrophic coverage based upon their crop insurance units as opposed to whole farm coverage?
3. How will the catastrophic program work with companion hail? Will it combine with hail insurance for those farmers that don't need or desire MPC1?
4. Will wheat not enrolled in the farm program be eligible for the catastrophic program?
5. How will the \$50 fee be applied in the case of crop share or similar agreements? Could the fee instead apply to ASCS farm number or units?
6. Has FCIC considered expanding the principles of non-standard classification to agents, adjusters and companies?
7. Few farmers in the traditional wheat belt are interested in the GRP program and would object to further expansion of the program. However, would FCIC consider offering GRP to wheat producers in those counties where GRP is offered for soybeans that are double cropped with wheat?
8. The experience this fall with the wheat price election served to illustrate the folly of tying the market price election to the world agriculture outlook board. Can the price election process be modified to take into consideration the marketability of the insurance product?
9. As a marketing tool, can a good experience discount be developed to provide a discount to existing insureds while minimizing small claims?





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NATIONAL • ASSOCIATION • OF • CROP • INSURANCE • AGENTS

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April 20, 1994

The Honorable Tim Johnson  
Chairman  
Subcommittee on Environment, Credit  
and Rural Development, Committee on Agriculture  
House of Representatives  
1301 Longworth House Office Building  
Washington, D.C. 20515

Dear Congressman Johnson:

On behalf of the National Association of Crop Insurance Agents ("NACIA"), I regret I was unable to accept your invitation to testify before the Subcommittee on Environment, Credit and Rural Development on the Federal Crop Insurance Reform Act of 1994. I am pleased to enclose for the record, however, copies of a prepared statement as well as an analysis of the Reform Act prepared by our counsel.

When the Federal Crop Insurance Corporation first heralded its Reform Act, but before its provisions were public, NACIA believed it would be able to put aside certain reservations and support the Act's provisions. Indeed, I was privileged to stand with Secretary Espy when he introduced the Act to the public. Regrettably, however, the Act's provisions and the Act's omissions require us to take a dimmer view than we originally anticipated.

As explained in our statement, we now believe that the Act confuses the respective roles of the Government and the private sector; that the Act's costs will be higher than the Government projects and its administration more complicated; and that, in fact, a much simpler approach exists to the simultaneous promotion of widespread participation and actuarial soundness and, indeed, an approach that does not require legislation.

If any members of the Subcommittee or its staff have questions concerning NACIA's statement, please do not hesitate to call me or Linda Vickers, our Washington representative. Again, I appreciate your invitation to appear before the Subcommittee.

Sincerely,

A handwritten signature in dark ink, appearing to read "Deanna Orwig".  
Deanna Orwig

STATEMENT OF THE  
NATIONAL ASSOCIATION OF CROP INSURANCE AGENTS  
BEFORE THE  
SUBCOMMITTEE ON ENVIRONMENT, CREDIT AND  
RURAL DEVELOPMENT, COMMITTEE ON AGRICULTURE  
HOUSE OF REPRESENTATIVES

April 21, 1994

THE FEDERAL CROP INSURANCE REFORM ACT OF 1994

The National Association of Crop Insurance Agents ("NACIA") is pleased to submit its views on the Federal Crop Insurance Reform Act of 1994 to the Subcommittee on Environment, Credit and Rural Development. NACIA was organized in 1981 as a non-profit corporation to foster a crop insurance program that will serve the needs of America's farmers and, thereby, to promote the sale of crop insurance. NACIA has been an active participant in FCIC rule making proceedings and has regularly participated in the legislative search for an improved crop insurance program to end ad hoc disaster payments.

NACIA believes that the statutory declaration of purpose in section 502 of the Federal Crop Insurance Act is the yardstick against which the Reform Act must be measured. That section states that it is the purpose of the Act "to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance." Will the Reform Act improve the economic stability of agriculture by making more sound the present system of crop insurance or will the Reform Act make the present system of crop insurance less sound and,

thereby, lessen the economic stability of agriculture? NACIA believes the latter is more likely than the former.

#### I. THE GOVERNMENT'S RESPONSIBILITY AND THE PRIVATE SECTOR'S RESPONSIBILITY

As will be shown below, the Reform Act blurs long-standing lines that distinguish public sector functions from private sector functions. NACIA believes that the blurring of these lines is a fundamental defect of the Reform Act; it adds uncertainty to the program, creates instability for its contractors and, ultimately, will redound to the detriment of the producer the program is intended to serve. NACIA believes that a federal program that creates instability among those responsible for its delivery cannot give stability to its beneficiaries.

##### A. UNDERWRITING AND LOSS ADJUSTMENT

In any insurance company there is always a tension between the conflicting needs of actuarial soundness and maximum participation. That tension is particularly acute in the Federal crop insurance program where Congress has mandated, on the one hand, that there be a projected overall loss ratio not to exceed 110 percent beginning October 1, 1995 and, on the other, that the expense and inefficiency of disaster payments be eliminated through maximum participation in the Federal crop insurance program. Actuarial soundness precludes the acceptance of high risk farmers but maximum participation bars their exclusion.

This tension is further exacerbated by a conflict between the Reform Act and the draft of the 1995 Standard Reinsurance

Agreement ("SRA") the FCIC recently published for public consideration. Section 2(d)(7) of the Reform Act amends section 508(h) of the Federal Crop Insurance Act, 7 U.S.C. § 1508(h), to state, as here pertinent:

"The Corporation's reinsurance agreements with the reinsured companies shall require the reinsured companies to bear a sufficient share of any potential loss under such agreement so as to ensure that the reinsured company will sell and service policies of insurance in a sound and prudent manner, taking into consideration the availability of private reinsurance."

In other words, the Reform Act would require the FCIC to transfer a sufficient share of loss (which is different than a share of risk) to reinsured companies so that they do not sell policies in a manner that is not "sound and prudent," taking into consideration the availability (a factor that should include the cost) of reinsurance. Because this section requires the FCIC to punish reinsured companies that sell policies to high risk producers when commercial reinsurance capacity is insufficient for the risk, this section of the Reform Act clearly resolves the conflict between actuarial soundness and participation in favor of actuarial soundness. Parenthetically, the section does not, as it should, direct the FCIC to increase the potential profit of reinsured companies that sell and service insurance in a sound and prudent manner.

Notwithstanding the fact that the FCIC drafted section 2(d)(7) and supports its enactment, the FCIC took the exact opposite view in its draft 1995 SRA. That draft requires reinsured companies -

"to make crop insurance available to all eligible producers for the crops and in the areas which are stated in its Plan of Operation as approved by FCIC." Section II.A.1.

This section, on its face, requires agents to sell policies to all producers, even those who it is believed will present a so-called "moral hazard" to the program. Compounding this felony, the SRA then places on its contractors (and, by implication, their agents) the burden of proof they are not, in any way, responsible for the shenanigans these policyholders might pull. Thus, the draft 1995 SRA resolves the conflict between actuarial soundness and participation in favor of participation.

To resolve the tension between actuarial soundness and full participation, the FCIC must recognize that while crop insurance is a form of catastrophic insurance there are, in the universe of catastrophes, so-called "normal" catastrophes that can be underwritten by the commercial insurance industry and cataclysmic disasters, such as the drought of 1988 and the flood of 1993, that the commercial insurance industry simply does not have the surplus to underwrite. Because the risk of cataclysmic events is not a true insurance risk, the indemnification for losses from those events is a form of domestic assistance that can only be borne by the Government, which is precisely why the Federal crop insurance program is included in the Catalogue of Domestic Assistance Programs.

The Reform Act does not recognize the difference between the insurance risk that commercial companies should assume and the



catastrophic risk that the Government must assume. For example, the Reform Act does not state who will underwrite the losses on the catastrophic coverage that is the essence of the Act. This is an ominous omission; if the FCIC intends to burden the insurance industry with liability for the catastrophic protection that will be available to all and without a premium charge to any, the fundamental premise of section 502 will be undermined. Societal costs cannot be assumed by "a sound system of crop insurance" unless the insurance system can spread its losses among all the members of society.

Similarly, the Reform Act does not specify who will adjust losses covered by its catastrophic risk protection plan. This silence, too, is unfortunate and deserves inquiry. Does the FCIC intend to assume responsibility for adjusting these losses, either directly or through local ASCS offices? If so, is this the first step in a preconceived plan to eliminate commercial insurers, their agents and their adjusters from the federal crop insurance program? If not, why is the Reform Act silent?

#### B. THE DUAL DELIVERY SYSTEM

At different times NACIA has been given two different reasons for the Reform Act's dual delivery system. Each reason, however, creates its own contradictions between different sections of the Act.

We first understood that the Reform Act created a separate government delivery system to process applications for

catastrophic risk protection because the FCIC expected the market to divide itself: producers who wanted only catastrophic coverage would gravitate towards a government office and producers who wanted higher levels of protection would contact their agents. If the FCIC forced producers who wanted only catastrophic coverage to spend time with an agent, there would be a backlash of complaints that would undermine the Reform Act.

This justification for a government delivery system, however, is in conflict with the expense reimbursement formula the Reform Act creates. Under that formula, the expense reimbursement for selling higher levels of coverage is greater than for selling lower levels, even though the cost of selling both levels is the same. The admitted purpose of this disparity is to encourage the sale of higher levels of production because those levels are consistent with the public interest. If higher levels of coverage are in the public interest, however, why should the Reform Act create a mechanism to divert producers away from agents who, alone, are qualified to explain the benefits of higher protection? Instead, the Reform Act should funnel producers to their nearest agent's office.

NACIA was later informed that the FCIC does not expect the market to divide itself. Instead, the FCIC expects that producers who want catastrophic coverage only will visit agents and producers who want higher levels of coverage only will visit government delivery offices. According to the explanation, there are certain geographic areas that are underserved by agents and

because the FCIC cannot define "underservice," it will provide an alternate delivery system everywhere.

This theory is inconsistent with the mechanism the Reform Act creates for the sale of catastrophic coverage. Producers who purchase catastrophic coverage must remit \$50 with their application to the government office or private sales agent. Because that check will be deposited in the U.S. Treasury, it must be transmitted promptly to a federal reserve bank. If a producer who purchased catastrophic coverage from a government office later decides to purchase a higher level of protection, the government office would have to send the producer's file to the agent and the government would have to refund the \$50 check.

The problems of massive transfers of policyholder files, of creating an audit trail for the collection, remittance and refund of tens of thousands of \$50 checks, and the paperwork that will be created for agents and government employees alike are the antithesis of reform. In this regard, on March 19, 1994, the Washington Post reported that Senator Leahy was investigating the ASCS Miami, Florida office which had stored up to \$25 million in negotiable checks in a file cabinet. According to the Post, the office had no automated system for keeping track of its checks and had no way of being certain of the value of the checks on hand, how many had been mailed to entitled producers or whether some had been stolen and fraudulently cashed.

Private agents cannot deliver catastrophic risk coverage on

an individual yield basis for \$50 per crop per producer, not to exceed \$100 per producer per county. An actual production file for a typical producer may be an inch thick; it entails hundreds of entries and scores of calculations. The labor involved and the legal liability agents invite for innocent error under the FCIC's new standard of strict liability cannot be recompensed for \$50 or \$100.

In short, if it is the judgment of Congress that catastrophic risk protection must be delivered for remuneration less than the cost of delivery, there must be a dual delivery system and the Government must assume responsibility for the delivery of that plan. On the other hand, if it is the judgment of Congress that the reasonable and allocable costs of agents are to be reimbursed, a dual delivery system is unnecessary; indeed, it is wasteful of federal funds and inconsistent with public policy.

At least since 1921 and the passage of the Budget and Accounting Act of 1921, the civilian procurement of supplies and services has been a fundamental public policy. That policy is presently enunciated in OMB Circular A-76 which states, in pertinent part:

"The Federal Government shall rely on commercially available sources to provide commercial products and services. In accordance with the provisions of this Circular, the Government shall not start or carry on any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source." (See, also OMB Policy Letter on Inherently Governmental Functions, 57 F.R. 45096 et seq., September 30, 1992).

In 1980, Congress was able to make crop insurance available for all crops in all counties because it amended the statute to enlist independent insurance agents in the sale and service of crop insurance. Those agents have been as successful as the free disaster payments that compete against them have permitted them to be. Indeed, those agents have been so successful in the sale of reinsured policies that for years now the FCIC has recognized that a dual delivery system for the sale and service of FCIC policies was wasteful and should be abolished.

In this regard, the FCIC's own records disclose the inordinate expenditures that were made to train ASCS employees to sell Federal crop insurance and the inadequacy of their accomplishments. In the first four months of 1992, the Department of Agriculture spent \$202,000.00 to train ASCS employees to sell, service and adjust losses on Federal crop insurance policies. As of that date, a total of 50 ASCS employees had been trained to sell and service policies and two ASCS employees had been trained to adjust losses. The return on that \$202,000 was two policies sold and one of those policies was sold in error. The two policies were sold to a husband and wife but under FCIC procedures a husband and wife must insure their production together under one policy. Moreover, the policies were not sold in a state in which there was an ASCS employee qualified to adjust losses.

NACIA believes that, notwithstanding the FCIC's estimates, approximately \$250 million will be required to train the public



sector to compete against the private sector and that this expenditure is not justified by experience, is wasteful of private sector tax dollars and is inimical to the survival and success of the Federal crop insurance program.

## II. EXPENSE REIMBURSEMENTS

The FCIC reimburses its contractors' operating and administrative costs based on a percentage of premiums. Premiums, however, are a function of crop prices which, in turn, are unrelated to the costs of selling and servicing multiple peril crop insurance. Those costs are the same whether wheat is \$1.00 a bushel or \$10.00 a bushel. Commissions based on the former price, however, would bankrupt contractors and commissions based on the latter price would unjustly enrich them. Arthur Andersen addressed this problem in a 1989 study commissioned by the FCIC:

"With respect to our evaluation of the current MPCIC expense reimbursement structure, we believe the reimbursement structure, excluding consideration of the underwriting gain, is not designed so that it will always result in a reimbursement that is fair and equitable to all parties. This is primarily because the costs incurred by the contractors are not directly dependent on the factors which determine the premiums, yet the FCIC reimbursement is directly related to premiums." p. IV.

"The FCIC should make a determination regarding which of the contractors' costs are allowable for reimbursement and communicate the information to the contractors, preferably within the contractor agreements." p. 10

The Federal Acquisition Regulation defines the costs of commercial contractors that are allowable expenses and regulates

the amount of profit government contractors can make. At present, section 508(h) of the Federal Crop Insurance Act states:

"The Corporation shall also pay operating and administrative costs to insurers of policies on which the Corporation provides reinsurance in an amount determined by the Corporation."

NACIA urges that this section be amended as follows:

"The Corporation shall reimburse the allowable, reasonable and allocable costs, as those terms are defined by the Federal Acquisition Regulation, to insurers of policies on which the Corporation provides reinsurance and pay a profit for the sale and service of such policies, as authorized by law."

This amendment would subject the FCIC's contractors to the same cost regulations that the Government has promulgated for all of its commercial contractors and it would require FCIC close-out audits of each year's reinsurance agreement, an important but neglected discipline. Finally, we believe that this amendment is one-half of the solution to a "sound system of crop insurance" that will protect producers against natural disaster and supplant disaster payments. The second half of that system is the elimination of the cost of cataclysmic catastrophes from the FCIC's rate structure.

### III. CATASTROPHIC LOSSES

In 1982, Milliman & Robertson, consulting actuaries with whom the FCIC contracted, recommended that, among other things, the FCIC define catastrophic losses to differentiate them from so-called "normal" losses. Milliman & Robertson suggested that catastrophic losses could be defined in terms of the frequency of loss, the severity of loss or both. In addition, we believe that

catastrophic losses may be defined differently according to crop or geographic area or both.

Catastrophic crop losses are not traditional insurance losses for which commercial insurance and reinsurance are available. For this reason, protection against catastrophic losses should be viewed, as Congress all along intended, as a domestic assistance component of the Federal program that the Government must assume, if it is to be assumed at all. Moreover, because catastrophic losses are not insurance losses they should be excluded from the calculation of insurance premiums and loss ratios.

The assumption of liability for catastrophic losses by the FCIC and the concomitant deletion of the cost of those losses from premium rates and loss ratio would have a significant, salutary effect on the Federal crop insurance program. In five years, we have witnessed two catastrophes of biblical proportion, the drought of 1988 and the flood of 1993. If those two catastrophes alone were eliminated from the FCIC's rate structure and loss ratios, premium rates would go down, making the program more attractive to more participants; the concomitant cost of the FCIC's subsidy of those premiums would decrease; and discriminatory underwriting practices, necessitated by Congress' determination to achieve a 1.1 loss ratio because of fiscal needs and not program needs, could be avoided because the FCIC could more readily comply with the statutory requirement.

The FCIC has published for public comment a proposed

definition of catastrophic losses. When defined, these losses should be deleted from all premium and loss ratio calculations. Because of the immediate, salutary benefits of such a rule, we believe it is a viable alternative to the FCIC's proposal to provide free insurance to farmers to protect 60 percent of their yield at a 50 percent price election; the FCIC could use the funds to be allocated to disaster insurance to subsidize catastrophic losses and thereby make it possible for private underwriters to assume the risk of "normal" losses. In addition, if the Department abandons its contemplated second delivery system, the cost of establishing that system would also be available to fund catastrophic losses or premium subsidies.

#### IV. CONCLUSION

An essential element in "a sound system of crop insurance," which is the focus and concern of the Federal Crop Insurance Act of 1938, as amended, is the elimination of ad hoc disaster payments. While we may speculate whether the Reform Act will contribute to that result, there is no question that the Act carries too much baggage of its own creation. Thus, the trade-off is not worth the gamble.

(Attachment follows:)

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ANALYSIS OF THE FEDERAL CROP INSURANCE PROGRAM ACT OF 1994

PREPARED FOR

THE NATIONAL ASSOCIATION OF CROP INSURANCE AGENTS

AND

RURAL COMMUNITY INSURANCE SERVICES, INC.

The Federal Crop Insurance Reform Act of 1994 represents another effort to eliminate ad hoc disaster payments. The Reform Act would replace those discretionary payments with guaranteed payments of catastrophic risk protection coverage to producers who applied to a local government office or private agent, paid a modest administrative fee, and suffered a 50 percent loss in yield coverage. They would be indemnified at 60 percent of the expected market price. Additional levels of protection would be available only from agents.

At the same time, the Reform Act would also vest new authority in the Secretary, transferring to that Office judgments that were previously made by the Congress and embodied in statute and judgments that were entrusted to the Board of Directors of the Federal Crop Insurance Corporation ("FCIC").

The FCIC's solution to the problem of disaster payments brings a host of new problems and their solutions have their problems. Thus, the Reform Act, in its totality, is a hodgepodge of rubber bands and bolsters, balusters and glue holding together



a statutory structure whose angles are not right and whose joints do not meet. The structure tilts acutely against private agents and insurers and, if it collapses, it is upon them that it will fall.

#### I. THE OFFER OF INSURANCE

The Federal Crop Insurance Act presently names each peril against which loss is protected. Thus, at the time of the purchase and sale of a crop insurance policy, the policyholder, the agent and the insurer know the insurable causes of loss covered by the policy. Under the Reform Act, however, insurance coverage will be available for losses due to "drought, flood or other natural disasters as determined by the Secretary." In other words, each year, as of the sales closing date, the policyholder, the agent and the insurer may not know whether a policy would protect against such perils as hail, wind, frost, fire, excessive rain, tornado, insects or plant disease. Whether those causes of loss are insured causes of loss would be left to the sole discretion of the Secretary without any statutory guidelines requiring a particular decision.

In this regard, the Reform Act, like the current law, permits the deletion of fire and hail coverage provided it is purchased commercially. However, because at the sales closing date the Secretary may not have declared fire and hail to be covered causes, there could be no coverage to delete. Thus, the Reform Act forces producers to purchase fire and hail insurance separately, a sharp reversal of current public policy.

A number of undesirable consequences can flow from unfettered Secretarial discretion. For example, the Secretary can declare causes to be covered to curry political favor or may decline to declare a cause covered for budgetary reasons or to force Congress to revert to disaster payments. Concomitantly, insurers might seek to have causes of loss not declared insurable to protect diminishing surplus or to have causes of loss declared insurable to increase sales.

The Reform Act should contain the current laundry list of all insurable causes and, like the present law, leave it to the Board of Directors to supplement that list. The more officials empowered with such discretion, the less likely it is that such discretion will be abused.

## II. CATASTROPHIC RISK PROTECTION

As a condition for participation in any Department of Agriculture benefit program for any crop or any loan program, a producer must obtain catastrophic risk protection. The scope of such coverage, however, is confused. New section 508(b)(5) states that if a producer's crop on any land in the county is covered, that crop on all of the producer's insurable land in the county must be covered. On the other hand, new section 508(b)(6) states that to qualify for any price support or loan program, catastrophic risk protection must be obtained only on any crop that has contributed or is expected to contribute 10 percent or more of the total expected value of all the producer's crops. While these formulas may not be mutually exclusive, one should be

selected.

Catastrophic risk protection covers a 50 percent loss in yield, on an area or individual yield basis, when both options are offered by the FCIC, indemnified at 60 percent of the expected market price (i.e., coverage for a 30 percent loss) or a comparable coverage as determined by the FCIC.<sup>1</sup> Producers may elect an individual yield and loss basis or an area yield and loss basis. Coverage includes losses due to prevented planting.

The cost of catastrophic risk coverage is \$50 per crop per county, not to exceed \$100 per producer per county. The producer is to pay the fee at the time of application to the United States Department of Agriculture ("USDA") or the agent. The fee is to be waived in the case of limited resource producers or refunded upon the purchase of additional protection. Assumedly, any monies collected will be required to be remitted to the FCIC for deposit in the United States Treasury because the funds collected will only be available for salaries and expenses upon appropriation.

Finally, if a producer applies for catastrophic risk protection from a USDA office and then elects to purchase additional coverage, the USDA office will have to transfer the producer's file to the agent. In this regard, and for all levels of coverage, the producer is required to:

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<sup>1</sup> The Reform Act creates a noninsured assistance program to provide coverage "equivalent to" catastrophic risk protection for crops for which such protection is not available. This program is discussed below, in section IX.

- (1) purchase insurance by the sales closing date;
- (2) provide acceptable records of previous acreage and production or accept a determined yield; and
- (3) report acreage planted and prevented from planting by the acreage reporting date.

The Reform Act's provisions for catastrophic coverage are cumbersome.

First, if a producer does not apply for catastrophic risk protection on a crop because it had not contributed and was not expected to contribute 10 percent of the value of all of the producer's crops, but, in fact, the crop does come to represent that value, what happens? Second, the Reform Act does not state what degree of loss in an area triggers catastrophic protection. Third, giving a producer a choice of individual coverage or area yield coverage invites adverse selection. Fourth, the actual cost and potential liability of processing applications for catastrophic coverage on an individual yield basis is too great for the compensation allowed. Indeed, even on an area coverage basis, the producer's administrative fee will not be adequate compensation for the ministerial functions described below or for the separate costs of loss adjustment. Fifth, requiring the physical handling of tens of thousands of checks by government employees and independent agents and the preparation and recordation of receipts for each of those checks is an auditor's nightmare. Sixth, requiring government offices to transfer their policy folders to private agents in advance of the sales closing date is impossible. Producers may not apply for catastrophic

protection until too late or may not decide until too late to purchase increased protection. And, under the best of circumstances such ministerial functions often are left undone or done improperly. Seventh, what is the cost of refunding the \$50 administrative fees to the producers who buy higher levels of coverage and to whom will it be left to process the complaints when those fees are not timely or properly reimbursed?

It is no answer to the sixth objection that a producer who procrastinates will have to suffer the consequences of underinsurance; that answer merely invites a return to disaster payments. Nor is it an acceptable answer to permit government offices to sell all levels of protection in order to lessen the bureaucratic entanglements that the bureaucracy proposed. This answer undermines the long-standing government policy of using the private sector to perform the Government's commercial functions.

Catastrophic risk protection should be limited to area coverage and the Reform Act should specify the amount of damage to a county that triggers the catastrophic risk coverage just as the Reform Act establishes such a trigger for noninsured assistance payments. All producers who suffer a loss equal to or more than the trigger amount should receive 100 percent of their catastrophic coverage and those whose crops suffered less should receive a proportional lesser amount. Again, similar provisions are made for noninsured assistance payments.

Moreover, in the event a county is declared eligible for

of 100 1000



catastrophic risk protection, the FCIC should reimburse the actual costs of loss adjustment in that county. Finally, payment should not be collected at the time of application. Indeed, until the application is accepted, there is no insurance for which to pay. The charge for catastrophic protection should be billed as any other crop insurance premium.

### III. THE DUAL DELIVERY SYSTEM

The Reform Act creates a USDA delivery system on the theory that producers who only want catastrophic protection will object if required to visit an agent and listen to a "sales pitch" and that their objections will be so loud and numerous so as to undermine a single delivery system and, thereby, the entire crop insurance program. The government also believes that there are areas in which private agents will not deliver insurance because it will not be economical for them to do so.

The government's rationale is flawed. First, producers can tell agents they want only catastrophic protection and thus end any "sales pitch" before it begins. Second, it is in the public interest for producers to visit agents and be captive to their "sales pitch." Catastrophic protection alone simply does not pass the suitability test. Catastrophic protection does not secure a loan; it does not cover annual operating costs; and it does not protect against bankruptcy. In short, federal crop insurance exists because catastrophic protection is not a prophylactic. Indeed, if catastrophic protection was adequate, why is each USDA office going to have available for distribution

the names of all crop insurance agents in the county?

Finally, and notwithstanding the USDA's own estimates, we believe it will cost approximately \$250 million to develop and train a federal sales and loss adjustment force. Certainly, for far less the FCIC could make it economically feasible for private agents to sell and service multiple peril crop insurance in those counties where the delivery system may be inadequate. For far less, the FCIC could train federal agents and adjustors just in those counties that are not adequately served. And, perhaps for less, the FCIC could buy the farms of those producers who want crop insurance but absolutely have no way to buy it.

Apart from the long-standing public policy against a dual delivery system, which RCIS and NACIA documented in their respective testimony to the Subcommittee on Appropriations for Agriculture, is the fact that a federal delivery system and the private delivery system will not be audited by the same government offices applying the same standards. In this regard, it may reasonably be inferred from the conduct of the Compliance Division and the Appeals Branch that there is, in the FCIC, a philosophic antagonism towards the private sector. Under these circumstances, any comparison of the two delivery systems will suffer from an institutional prejudice that, like any prejudice, is simply unacceptable and will redound to the private sector's permanent detriment.

IV. CROP INSURANCE COVERAGEA. Levels of Coverage

The Reform Act gives producers the option of purchasing additional coverage based on an individual yield and loss basis or on an area yield and loss basis, when both options are offered, at 65 percent or more of the recorded or appraised average yield and 100 percent of the expected market price, or an equivalent coverage. The level of coverage is to be dollar denominated and may be purchased at any level not to exceed 85 percent of the individual yield or 95 percent of the area yield as determined by the FCIC.

The Reform Act requires the FCIC to establish a price level for each commodity on which insurance is offered that -

- (1) is not less than the projected market price, as determined by the FCIC; or
- (2) may be based on the actual market price at the time of harvest, as determined by the FCIC.

Insurance coverage shall be equal to less than the level the FCIC so establishes and shall be quoted in dollars per acre.

B. Premiums

The Reform Act requires the FCIC to establish premiums at a level sufficient to attain an expected loss ratio of not greater than 1.1. As to each level of coverage the Reform Act states:

- (1) For catastrophic risk coverage (i.e., 30 percent coverage), the amount of premium is to cover: (a) anticipated losses; and (b) a reasonable reserve. The FCIC is to pay the entire premium.

(2) For levels of coverage less than 65 percent of the yield and 100 percent of the market price but more than catastrophic risk coverage (i.e., coverage between 31 percent and 64 percent), the premium is to cover: (a) anticipated losses; (b) a reasonable reserve; and (c) operating and administrative expenses which are to be less than the expenses allowed for the highest level of coverage. The FCIC is to pay the premium share covering the amount of premium established for catastrophic risk protection plus (b) and (c).

(3) For 65 percent and higher levels of coverage the premium is to cover: (a) anticipated losses; (b) a reasonable reserve; and (c) operating and administrative expenses as determined by the FCIC on an industry-wide basis as a percent of the total premium. The FCIC is to pay the premium share covering a 50 percent loss in yield indemnified at 75 percent of the expected market price plus (b) and (c).

The Reform Act establishes expense reimbursements for insurance with levels of coverage between 31 percent and 64 percent at a lower rate than for coverage at the 65 percent level so that the FCIC may penalize agents who sell 31 percent coverage to a producer who intended to buy 30 percent catastrophic coverage. Under such a sale, the producer's \$50 administrative fee would be reimbursed and the agent would earn a full commission. Thus, the Reform Act creates a formula for the reimbursement of operating and administrative expenses to prevent agents from selling the very coverage that the Reform Act creates

and authorizes them to sell.

The cost of selling and servicing a policy providing 64 percent coverage is no different than the cost of selling and servicing a policy providing 65 percent coverage or a policy providing 35 percent coverage and, yet, by law, the reimbursement on the former must be lower than the reimbursement on the latter. In addition, the Reform Act contains no formula for calculating expense reimbursements at the lower level of coverage, whereas at the higher level, expenses are to be determined on an "industry-wide basis," whatever that term means and however those expenses are to be calculated. Will companies that spend six percent of premium on loss adjustment be reimbursed for only five percent if that is the amount determined on an "industry-wide basis"? Will companies that pay an average commission of 16 percent get a windfall if the "industry-wide basis" is 18 percent?

Compounding this matter and, indeed, complicating the entire issue of insurance delivery and contract compliance is a new section 508(d)(3) which states:

"If a private insurance provider determines that it may provide insurance more efficiently than the expense reimbursement amount set by the Corporation, the private insurance provider, if approved by the Board, may reduce the premium charged the insured by the amount of such efficiency. Any such reductions shall be subject to the rules, limitations and procedures established by the Corporation."

This section invites contractors to shortchange amorphous but crucial components of contract responsibilities, such as compliance, and rewards them with increased market share if they are successful. At the same time, the section requires the FCIC



to ferret out and negate, by new procedures and regulations, every shortcut a contractor might invent. This is a battle of wits the FCIC will lose sufficiently often to distort the marketplace and sully the reputation of all of its contractors.

The Federal Acquisition Regulation establishes a government-wide system for the compensation of contractors. Instead of adopting that system, which compensates contractors for their reasonable, allocable and allowable costs and permits them an agreed upon profit according to an established body of precedent, the Reform Act introduces caprice and uncertainty into a contract system designed to eliminate both.

#### V. YIELD DETERMINATIONS

The Reform Act appears to mandate yield coverage plans based both on actual production history ("APH") and on area yield. On one hand, the Reform Act states that the FCIC "shall" provide an APH plan and an area yield plan. On the other hand, two paragraphs later, the Reform Act states the FCIC "may" provide an area yield plan.

The APH yield plan uses the producer's APH for the four previous, consecutive crop years up to a data base of 10 years. If the producer does not submit adequate documentation, the FCIC is to assign a yield of not less than 65 percent of the transitional yield, adjusted to reflect available APH documentation.

The area yield plan allows an insured producer to qualify for an indemnity if a loss has occurred in the "area" in which

the insured farm is located.<sup>2</sup> The producer will be allowed to select the level of area production at which an indemnity will be paid. The producer may choose between individual or area yield coverage on a commodity-by-commodity basis.

The section on area yield should make clear that the producer in the damaged "area" must also have damage to be indemnified.

#### VI. CLAIMS FOR LOSSES

The Reform Act introduces a new procedure for the resolution of disputes between producers and insurance companies. Under the Reform Act, the FCIC is to promulgate standards to ensure that all claims are adjusted uniformly and timely. The Reform Act then states that if a claim is denied by the FCIC, the producer may bring an action against the FCIC and the insurer in the United States District Court for the district in which the insured farm is located.

Under these provisions, if an insurer denied a producer's claim, the producer would not sue the insurer or institute an arbitration action. Instead, we understand that the insurer would appeal to the FCIC and a formal, administrative hearing would be held before an administrative law judge ("ALJ"). If the ALJ ruled against the producer, the producer could sue the FCIC and the insurer.

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<sup>2</sup> New section 508(b)(5), discussed above, requires "all insurable land of the producer in the county" to be covered by catastrophic risk protection insurance. Will an area be other than a county for purposes of an area yield plan?

This process is both inefficient and incorrect. First, it eliminates alternative dispute resolution procedures, such as arbitration and mediation. Second, if an ALJ denies a claim, it then becomes the Government and not the insurer that issued an appealable order; clearly, under those circumstances the insurer should not be a party to the suit. In this regard, the producer's appeal would rest on the Administrative Procedure Act with which the Government must comply, not insurers. This provision will substantially increase contractors' costs.

#### VII. REINSURANCE

The Reform Act mandates that the Standard Reinsurance Agreement ("SRA") shall require reinsured companies -

"...to bear a sufficient share of any potential loss...so as to ensure that the reinsured company will sell and service policies of insurance in a sound and prudent manner, taking into consideration the availability of private reinsurance."

This section is curious. Insurance companies that sell policies in "a sound and prudent manner" do not sell policies to high risk producers or on high risk crops. And when insurance companies take into consideration the lack of available private reinsurance, prudence makes them even more risk adverse. This section makes sense only if its purpose is to limit the availability of crop insurance to producers whose potential loss ratio will yield an underwriting gain. And this purpose is contrary to the public policy underlying the Federal crop insurance program, as demonstrated by the FCIC's own interpretations and public statements.

VIII. MISCELLANEOUS

The Reform Act makes the following changes in the Federal Crop Insurance Act which changes are of varying import.

1. A technical change is made in the USDA's representation on the FCIC's Board.

2. The Reform Act would give the FCIC the authority to settle claims, an authority that now rests in the Justice Department. This provision may cause the Reform Act to be referred to the Judiciary Committee.

3. The Reform Act contains standards for the disqualification of producers.

4. The Reform Act states:

"There is hereby appropriated, without fiscal year limitation, such sums as may be necessary to carry out the purpose of the insurance fund."

Appropriations are not customarily made in substantive laws; funds are appropriated by laws limited to appropriations. This provision should require the Reform Act to be referred to the Appropriations Committee.

5. The provisions for reasonably compensating master marketers for sales and renewals in section 507(c)(3) and for indemnifying agents for FCIC errors are eliminated.

6. Local USDA offices will be required to make available to producers current and complete information on all aspects of federal crop insurance and a listing of insurance agents. Who will provide the listing? Who will verify its accuracy?

7. Different persons may be eligible for catastrophic risk protection insurance than for other plans of insurance. Any producer that meets the definition of "person" as defined by the Secretary is eligible for the former. A producer who is at least 18 and has a bona fide insurable interest in a crop as an owner-operator, landlord, tenant or sharecropper is eligible for the higher levels of coverage. This distinction is needless. Moreover, it creates another audit responsibility and another layer of record keeping.

8. The Reform Act authorizes the Secretary to establish a permanent advisory committee to advise the Secretary on the implementation of the Act.

9. The Reform Act is to take effect beginning with the crop year immediately following its enactment. Different crops, however, have different crop years.

10. The Reform Act neither defines nor sets forth standards for the definition of the term "market price." This definition is crucial to participation and should not be left to changing administrative fiats.

#### IX NONINSURED ASSISTANCE

The Reform Act creates a program of noninsured assistance to provide the equivalent of catastrophic risk protection for crops for which catastrophic insurance is not available. Noninsured assistance does not cover losses due to: (1) the producer's neglect or malfeasance; (2) the producer's failure to reseed to the same crop where it is customary to do so; and (3) the



producer's failure to follow good farming practices, as defined by the FCIC.

Producers must apply to the USDA for assistance; provide all required records to the FCIC or accept a yield as determined by the FCIC; and report acreage planted and prevented from being planted by the acreage reporting date. Producers of non-program crops are not eligible unless the area average yield for the particular crop falls below 65 percent of the expected area yield.

The FCIC is to make a prevented planting payment if the producer is prevented from planting more than 35 percent of the acreage intended for the crop. The FCIC is to make a reduced yield noninsured assistance payment if the total quantity of the crop that a producer is able to harvest on any farm is less than 50 percent of the expected area yield, factored for the producer's interest in the crop. (Query, if a producer harvests less than 50 percent of the expected area yield on one farm and more than 50 percent on another, can the producer receive a payment for both farms because a loss occurred on "any farm"?).

A "person" (as opposed to a producer) who has qualifying gross revenues in excess of \$2 million is not eligible for noninsured assistance payments.

Payments of noninsured assistance shall be made for losses in excess of 50 percent of the established yield at 60 percent of

the average market price for that crop.<sup>3</sup> Payments under this program that a person is entitled to receive may not exceed \$100,000.

March 14, 1994

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<sup>3</sup> This section is poorly drafted. Literally, it states that payments shall be made for losses in excess of 30 percent, i.e., "in excess of 50 percent of the established yield for the crop at 60 percent of the average market price." The section should state "payments shall be made for losses in excess of 50 percent of the established yield for the crop indemnified at 60 percent of the average market price."



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

April 14, 1994

Honorable Martin Olav Sabo  
Chairman,  
Committee on the Budget  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

Last month, the Department of Agriculture, on behalf of the Administration, unveiled an innovative proposal to reform the Federal government's role in helping farmers struck by natural disasters. The plan combines two redundant, expensive government programs -- Federal crop insurance and Federal ad hoc disaster relief -- into a single, unified, on budget program. In the process, farmers and taxpayers both benefit from greater certainty, and taxpayers save \$750 million in efficiencies over five years.

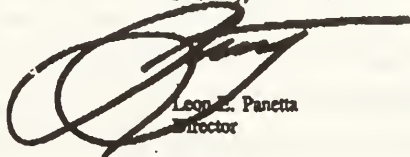
This initiative grew directly from the President's visits to the devastated Midwest flood areas last summer. He and other Administration officials met with many victims of that catastrophe, farmers and non-farmers alike, and the Administration promised to make government work better to deliver help in a crisis. Now, we must keep that promise.

As the FY 1995 budget resolution conference convenes next week, I urge the conferees to make the needed yearly baseline adjustment of \$1 billion to reflect historical spending on crop disaster relief, so that our crop insurance reform plan can move forward. I strongly believe that this baseline adjustment will more accurately reflect Federal government spending practices and will result in a more realistic FY 1995 budget resolution.

The Administration's crop insurance plan is a model for making government perform better for people. It eliminates redundant programs, it promotes realistic budgeting, it relies on the private sector to deliver governmental assistance, and it provides security and confidence for American producers.

I hope you will support us in this important effort.

Sincerely,



Leon E. Panetta  
Director

Statement of Plains Cotton Growers, Inc.  
On Proposed Federal Crop Insurance Reforms  
Presented By Myrl D. Mitchell  
March 29, 1994

I would just like to say a short thank you to Congressman Combest and to Mr. Ackerman for taking the time to be here this morning. My name is Myrl D. Mitchell and I am a cotton producer and ginner from Lenorah, Texas. I am here today to present a few comments on behalf of the producer members of Plains Cotton Growers many of whom are constituents of yours Congressman Combest. As you are no doubt aware this area produces some 15 to 20 percent of the cotton grown in the United States each year. We plant on average three to three and one-half million acres of cotton in the 25 counties surrounding Lubbock. Through the years the need for affordable, high quality income protection has been a constant for the producers in this area. In fact many of the banks we deal with now require crop insurance before a producer can obtain financing to grow his next crop. Through the years cotton producers on the High Plains have become well acquainted with Federal Crop Insurance and we believe their experiences shed light on the good and bad contained in the current system.

Making a viable crop insurance program available is vitally important to the producers in this area. Like you, we believe that a move needs to be made towards making Federal Crop Insurance work and away from ad hoc disaster programs that, while helpful, often illustrates the old saying "its too little, too late". Here on the High Plains, producers need a responsive form of protection that allows them to protect themselves and provide the greatest number of alternatives following a crop loss. Any reforms that are made to the current crop insurance system need to be

fiscally sound, both from the government's point of view of limiting the overall losses and from a producers point of view that the coverage provided must be economically accessible and adequately meet his protection requirements.

I would also like to point out that in the past producers often decided not to take crop insurance because the potential return they could expect did not adequately reflect the yields they typically manage for and count on to make a profit. Much of this is due to the adoption of many of the latest tillage, irrigation and fertilization technologies that allow them to grow more high quality cotton on the same number of acres. Accordingly a method of developing yields for insurance purposes that more closely matches the actual production capabilities of a farm or farmer is an absolute necessity and I believe we are on the right path with the use of Actual Production History (APH).

The last point I would like to make regarding the old crop insurance system basically sums up what producers have felt about the coverage available. The general feeling was that crop insurance cost too much and provided too little protection in the event of a loss. This is probably the major reason crop insurance has been underutilized as a management tool in the past.

Now that you know some of the concerns producers have had with crop insurance in the past, lets look at how the federal crop insurance reform proposal addresses some of these issues. In general the current proposal addresses most of the concerns we have voiced over and over through the years. It has many changes that we wholeheartedly approve as well as some things that we feel need to be explored further. The idea of providing basic catastrophic coverage at a minimal cost, allowing



producers the option to purchase additional coverage levels up to 85 percent of their insurable yields, and providing a mechanism through which a producers true production potential is used as the insured yield are all excellent suggestions. There are many more good points in the proposal, however, I do not have the time to get into them right now. We, the Federal Crop Insurance Corporation, legislators and producers, need to continue to work together to work out reforms that will make affordable, high quality catastrophic crop insurance a reality. We have taken a giant step towards achieving this goal and we welcome the opportunity to participate in this process.

Along those lines there are several areas in which we feel further work needs to be done. We would like to see more work done to refine variables such as harvest incentives and de minimus yields that are fair to both the producer and federal government. Improvement in adjustment procedures and speedier adjustments are also high on the list of producers looking for change. Again, these are only a few of the things that come to mind. I'm sure that before this process is finished there will be a number of further changes and that each will make the overall package better and more attractive to producers. In conclusion let me say that I appreciate the opportunity to be here today and talk about some of the issues that are on the minds of people from this area. We seem to be on the right track and the proposed changes address many of the concerns and answer some of the questions producers have about Federal Crop Insurance. Thank you.

Testimony of

William R. Weber  
President and Chief Executive Officer  
The Farm Credit Council

before the

Subcommittee on Environment, Credit and Rural Development  
U.S. House of Representatives

April 21, 1994

Mr. Chairman and members of the subcommittee, thank you for allowing us the opportunity to show our support for reform of the Federal Crop Insurance Program. I testify today on behalf of the institutions of the Farm Credit System, which are committed to working with the administration and this subcommittee to help provide farmers with a high quality crop insurance product at an affordable price.

Farm Credit is in a unique position in the crop insurance industry. As a provider of credit to production agriculture, Farm Credit depends on crop insurance to preserve the value of its loan collateral. As a provider of crop insurance to its farmer/borrowers, Farm Credit is keenly interested in the marketability of the product. Finally, as a cooperative owned and directed primarily by agricultural producers, we advocate a crop insurance program that provides farmers with the best possible tool to manage one of their most unmanageable risks - weather.

From each of these perspectives, the Farm Credit System supports the administration's proposed crop insurance reform package. We congratulate Secretary Espy and his staff, and especially Federal Crop Insurance Corporation Manager Ken Ackerman, on their proposal. We also thank you and your subcommittee, Mr. Chairman, for quick consideration of the proposal and for providing this and other forums across the country for farmers and others in agriculture to express their views.

Today, I would like to make several points about the proposed legislation. First and most important, since the Congress through its budget process will be making the initial decision on crop insurance reform very soon, we urge members to vote for full funding of the administration's proposed program.

By combining the money used for crop-related disaster payments with the money already being spent on crop insurance, Congress can provide farmers with a high quality tool to manage weather-related risks at a price that will attract enough participation to make the program viable. With current crop insurance participation rates at just over 30 percent of eligible acres, the program cannot be actuarially sound and affordable to farmers. To get the kind of participation rate necessary for a true insurance program, the product must provide a benefit that producers consider worth the price. Full funding for the proposal is crucial for its success.

In addition, a budget-conscious Congress could find needed budget savings from the elimination of crop-related disaster payments. Almost every year, a region of the United States faces severe weather or natural disaster. If it's not a flood, it's a drought. If not an earthquake, then a hurricane. Under the current disaster program, the federal government's costs are uncontrollable. In an atmosphere where the budget deficit is forcing hard decisions in farm policy, cost control is critical.

The administration's proposal takes money that is already being spent, uses it to fund a program that will provide farmers with the risk management tools they need at price they can

afford, and lowers the budget deficit. It's good farm and fiscal policy and the Farm Credit System heartily endorses it. Again Mr. Chairman, we urge Congress to fully fund the administration's request. Inadequate funding severely limits the possibility for workable reform of the program and potentially exposes U.S. farmers to uncontrollable risk.

My final two points are more technical details and concern the proposed dual delivery system and the processing fee for the catastrophic product.

#### Dual Delivery System

Currently, when they purchase crop insurance products, farmers have the benefit of service from trained professional crop insurance agents, be they located in insurance agencies, banks, Farm Credit institutions, or elsewhere. Risks and needs vary across the nation, and farmers need sound advice when they try to decide which insurance product is right for their particular operation.

Farmers benefit from the professional advice they receive when purchasing insurance from an experienced insurance professional. Under the proposed dual delivery mechanism, USDA will be forced to absorb the huge cost of training its staff to essentially do the job private agents are already prepared to do. We are also concerned that because USDA would offer only catastrophic coverage, farmers would be left with the impression that government is advocating only this level of coverage.

We agree that in some areas of the United States, the capacity of the private crop insurance delivery network will be unable to handle the increase in volume once the mandatory participation requirements are in place. The Farm Credit System, with 238 local lending institutions and almost fourteen hundred local offices nationwide, can help ease the burden. We hope to work with the committee to explore options in this area and to preserve the private delivery system.

#### Processing Fee for Catastrophic Coverage

Under current practices and procedures required for participation in the crop insurance program, a \$50 fee for processing an application is probably insufficient for most institutions to cover the cost of necessary overhead. However, with participation in the catastrophic program a condition of participation in other USDA farm programs, it is very important to keep down the cost to producers.

By significantly reducing the paperwork process, it might be possible to provide farmers with the lowest possible fee requirement without requiring private insurance vendors to lose money when they take a catastrophic application. It might be possible to streamline the application needed to obtain catastrophic insurance coverage.

Agents could collect only a very limited amount of information at application time. One page of basic data about the producer and his or her operation might be sufficient. Only after a producer filed a claim, would more detailed information, like proof of yield, be

required. Producer and agent alike would benefit from such an arrangement.

In summary Mr. Chairman, the Farm Credit System supports the administration's efforts to reform the Federal Crop Insurance Corporation's programs. We remain concerned however, that the program will receive inadequate funding. Without adequate funding, the program has little chance to offer the high quality risk management tool farmers need.

We look forward to working with this subcommittee and the administration toward swift enactment of the proposal. Thank you again for this opportunity to testify.

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